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27 JULY 1990



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## GENERAL

### Assessment of Global Military Climate, Trends

HK1607141390 Beijing JIEFANGJUN BAO in Chinese  
22 Jun 90 p 3

[Article by Li Dianren (2621 3013 0088): "A Preliminary Analysis of the Trend in International Military Developments"]

[Text] During the first half of this century, mankind experienced two World Wars. After World War II, and during the 1980's in particular, military activity has been increasingly confined to a small scale. A conspicuous manifestation of this is that in handling their conflicts of interests, nations or allied groups usually assign war a very low priority. War's extreme objective of eliminating the enemy state has now been changed, and war is now regarded as a cautious action subjected to limited political aims. Military confrontation is being gradually replaced by political dialogue. Military activity has mainly manifested itself as a kind of theoretical phenomenon, namely, a contest in the "quiet battlefield" which people have usually talked about.

These changes have shown that mankind has a new understanding of war and that the starting point of military policy in various countries has also been considerably readjusted.

I. In recent years, people have shifted their attention from nuclear war to limited conventional war. In particular, after scientists in the West have put forward the theory of a "nuclear winter," both the United States and the Soviet Union have further realized that nuclear war means the destruction of both sides. The so-called "first strike" does not mean the end of war and it will inevitably be followed by a counterattack. The so-called "limited nuclear war" may mean the start of a nuclear war because nobody can guarantee that it will not be expanded. On the other hand, the threat of a limited conventional war, and war of low intensity in particular, has become increasingly obvious. It has become a practical danger facing many countries. It is precisely because of this many countries have in recent years changed and readjusted their military power to conform with the peculiarities of limited conventional war.

First of all, marked changes have taken place in the system governing the authorized strength of an army. In the past, in the U.S. and some West European armies, the proportion of heavy troops in the ground force was as high as 60 percent to meet the demand of fighting a major warfare in the battlefield of Europe. As a result, the entire ground force lacked operational flexibility. It was difficult for the ground force to deal with various kinds of contingencies. Thanks to reforms in recent years, in the course of continuing to strengthen their combat effectiveness against the Soviet Union, the United States and some West European countries have emphasized development of light and special troops. Their attention is very much focused on a war of low

intensity. The ratio between heavy and light troops in U.S. ground force units has been reversed, and the proportion of light troops has reached 60 percent.

Various countries have attached importance to providing useful conditions for the application of new technology to expand and reorganize their mobile forces. In 1985, France officially established a mobile force consisting of nearly 50,000 persons. Its main unit, "Air Mobile Division," consisted of 6,000 persons armed with more than 200 helicopters of various kinds. The main task of the division was to support combat operations on the forward position in Europe. Great Britain also reorganized an armored brigade under its Rhein Army into an air mobile brigade whose main task was to check tank groups of the Soviet Union and the operational attack of the Soviet Union in particular. Italy is planning to establish a "prompt intervention unit" formed by its ground force, air force, and navy with an authorized size of two brigades. Its main task is to carry out urgent operational duties in the Mediterranean region. The U.S. Army established a command of mobile deployment forces as early as in 1980. In 1983, the command was upgraded to central headquarters directly under the command of the Joint Chiefs of Staff. At present, mobile deployment forces under the command of central headquarters have consisted of nearly 300,000 persons, including 5 ground force divisions, 7 tactical air squadrons, and 3 naval aircraft carrier columns. Mobile forces in various countries are characterized by their prompt response and strong combat effectiveness. For example, air mobile units of the U.S. ground force and aircraft carrier columns of the U.S. Navy can make their response within one hour after receiving orders. A brigade under the 82d Division of the U.S. Army can be deployed in Southwest Asian region within 48 to 72 hours.

Special troops are good at dealing with eventualities. In the 1980's, in the course of restoring its military equipment and facilities, the United States regarded the development of its special troops as a priority. By 1990, it plans to increase the members of its special troops by one-third, and their weapons and facilities will be fully updated. During the combat operations in the invasion of Grenada and Panama, special troops demonstrated that their role was irreplaceable by other troops.

Judging from the general trend of development, one realizes that present-day combat forces should be composed of heavy troops, light troops, and special troops in appropriate proportions, and that they are shock forces with a very strong capability for meeting contingencies.

II. For a long period of time in the past, maintaining enormous military armaments was regarded as an important factor indicating that a certain country was strong and powerful. It was regarded as an important measure for crushing other rival countries, safeguarding its security, and a driving force for promoting its prosperity. However, more than 40 years after World War II, the arms race between the two major military groups

became increasingly acute. As a result, the arsenals of some countries and superpowers in particular, expanded, and their economic development was adversely affected. With the two rival groups unable to overturn the balance of power, a demand for arms reduction occurred. At present, the disarmament of the United States and Soviet Union is actually aimed at reducing their arms, rather than completely giving up the arms race. The arms they reduce are actually those which are obsolete or redundant. Their aim of doing so is to use their money to manufacture new weapons and facilities, or to invest it in economic construction.

In the meantime, many countries, superpowers, and developed countries in particular, have never relaxed their efforts to build up their military power. The only difference is that they are seeking new ways of development to meet structural demand in the future. U.S. military authorities have held that the period after 1972 is the third postwar "peacetime period" which will last longer than previous ones. Military buildup in this period is not aimed at arms expansion and war preparation carried out on the eve of a war. It is aimed at fully promoting the modernization of the army, and enhancing its actual combat effectiveness in light of the international situation at the end of this century and early next century. The guiding principle observed here is: Maintaining a capable and active military force, reducing personnel expenses of the three armed services, and concentrating financial resources on enhancing the quality of servicemen and facilities. In 1981, personnel expenses for American servicemen accounted for 48 to 50 percent of total military spending. It has now been reduced to less than 40 percent. In recent years, under the guidance of the principle of "rational" and "full use," the Soviet Union has also focused its attention on reducing the size and enhancing the quality of its armed forces. It has further attached importance to developing conventional weapons and new generation strategic defense systems. According to U.S. official statistics, over the past 10 years, the Soviet Union spent \$150 billion on developing its strategic defense system. At present, some 10,000 scientific and technical personnel are engaged in study in this regard in a bid to work out countermeasures against the U.S. strategic defense system.

In a word, the development of contemporary military forces has revealed the following fact: Excessively large and enormous superior military facilities are no longer an ideal pattern for development. Armed forces of various countries are striving toward the target of enhancing their powerful combat effectiveness and high quality.

III. In history, almost all new technologies were first applied to the military field. In modern history, the first Morse telegraphic machine, the first airplane invented by the (Wright) brothers, the first V-1 missile manufactured by the Germans, the phenomenon of atomic fission of uranium nucleus discovered by German chemist (Otto Hans) and (Strausman), the first valve computers produced by the Americans, and the first satellite

launched by the Soviets, which represented advanced technological levels of the time, first showed their prowess in the military field without exception.

Furthermore, in the most advanced branches of science, the proportion of military items has been fairly high. For example, in a period of more than 30 years since the launching of the first satellite, more than 4,000 satellites have been launched by various countries in the world, about 40 percent of which were satellites for military reconnaissance. The percentage of nuclear technology applied to the production of satellites was much higher than that applied in other fields. Military nuclear technology is also much more advanced.

However, things are different nowadays. High-grade, precision and advanced science and technology are no longer restricted to serving certain purposes or fields. Priority is no longer given to military purposes. On the contrary, they are widely applied to various fields. The previous situation in which the development of the technology for civilian use was slower than that for military use is also being changed. Moreover, the newly developed military technology is very often promptly used in civilian and commercial fields.

Mankind has stepped into the end of the 20th century. We have now a more sober understanding of the value of comprehensive national strength, and mutual relations between economics, the military, and science and technology. Nowadays, more and more countries are making use of their military science and technology, and high technology in particular, to fully promote a new scientific, technological, economic, and military development. The "Star Wars Program" of the United States is obviously not aimed at military purposes alone. The greater benefits of the program lie in making use of space technology to bring along the study of biological genetic engineering (for example, the finished product percentage of space experiments on insulin is 100 times that carried out on earth); making use of space microgravity to produce integrated chip materials for new generation computers; making use of such factors as high altitudes, microelectronics, cryogenics, and the sun to exploit space resources; and opening up the new fields of beam energy and microcomputer technology in the course of developing laser weapons, particle beams, microwave weapons, and smart weapons. In other words, the "Stars War Program" is used to extensively promote high technology to push the U.S. scientific, technological and economic power to a still higher level to fulfill its aim of contending for hegemony. The "Eureka Plan" of Europe, "Major Scientific and Technical Program" of Japan, and "Strategy for Speeding up Social and Economic Development" of the Soviet Union are of both military and civilian in nature. The civilian coloring of the "Eureka Plan" is particularly obvious.

It is obvious that making use of military means to explore and open up unknown scientific and technological fields in the interest of using advanced military science and technology in commercial, civilian, and

social sectors is one of the characteristics of the competition for national strength at the present and in the future.

Military development trends of the contemporary world can indicate to a great extent the process and track of the military development in the world in the next century. There is no doubt that this has caught the attention of Chinese servicemen, because our future success or failure is determined by our understanding of the situation and our actions taken today.

## UNITED STATES

### Potential Impact of East Asia Strategy Initiative

90CM0166A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 8, 23 Apr 90 pp 3-5

[Article by Xia Liping (1115 4539 1627) and Xu Nan (6079 2809): "A Preliminary Analysis of the 'U.S. East Asia Strategy Initiative'"]

[Excerpts] Early this year, in the midst of major changes in the world situation and a relaxation of U.S.-Soviet tensions, the U.S. National Security Council, State Department, and Defense Department jointly formulated an "East Asia Strategy Initiative" (EASI), which has been approved by President Bush. When U.S. Secretary of Defense Richard Cheney visited Asia last February, he sought the opinions of the Japanese, South Korean, and Philippine Governments regarding the implementation of this initiative, which calls for the United States to partially readjust the strategic mission of its military forces in Asia and to reduce slightly its troops and bases in Asia. This will have a definite impact upon the security equation in the Asian-Pacific region. [passage omitted]

### Impetus for Formulation of the "East Asia Strategy Initiative"

U.S.-Soviet relations have relaxed in recent years. At the same time, due to domestic economic difficulties, the Soviet Union is attempting to trade off military reduction for economic development, thereby bolstering its overall national strength and building up the force needed to ensure its position as a major power. For this reason, the Soviet Union has been carrying out a limited military drawdown in the Asian-Pacific region for the past two years. Soviet leader Gorbachev announced in December 1988 that the Soviet Union would reduce its troops by 500,000 by the end of 1990, and 200,000 of these reductions would be made in Asia. The Soviet Union withdrew completely from Afghanistan in February 1989. Soviet troops began a partial withdrawal from Mongolia in April 1987, and the Soviet Union and Mongolia reached an agreement last March calling for a complete Soviet troop withdrawal from Mongolia in 1992. The Soviet Union is now destroying its medium-range and short-to-medium-range missiles deployed in

Asia in accordance with the U.S.-Soviet Intermediate-Range Nuclear Forces Treaty. The Soviet Union began withdrawing its aircraft and military ships from Vietnam's Cam Ranh Bay in 1989, and it plans to withdraw completely before the Vietnam-Soviet agreement on joint use of the Cam Ranh base expires in November 1991. Activities and maneuvers by the Soviet Pacific Fleet were greatly reduced in 1989. The relaxation of U.S.-Soviet relations and the shrinking military presence of the Soviet Union in Asia have caused the United States to lose its reason for maintaining the huge military forces in Asia that it has had in the past.

The U.S. budget and trade deficits, though somewhat reduced in the latter part of the Reagan administration, are still quite large. Statistics indicate that the U.S. budget deficit will still reach \$100.5 billion in fiscal 1991, and that its trade deficit in 1989 was \$108.576 billion. For this reason, many U.S. congressmen advocate using the relaxation in U.S.-Soviet relations to gain a "peace dividend." They believe that the budget deficit can be reduced only through large reductions in military expenditures, and that they could devote more money to developing education and improving production, thereby improving the U.S. trade deficit. They demand large reductions in the military budget in the next few years. [?Kaufmann,?] a former adviser to the U.S. Department of Defense, even called for a 50-percent reduction in military expenditures within 10 years.

Faced with strong pressure from the U.S. Congress as well as public opinion, the Bush administration has had no choice but to further readjust U.S. defense policy. The Bush administration feels that the relaxation of U.S.-Soviet relations and developments in the Soviet Union and Eastern Europe "have greatly improved the national security of the United States," but that "the Soviet Union's military power still cannot be taken lightly," and the situation in the Soviet Union could take a turn for the worse. At the same, in areas other than Europe, the threat of regional conflicts remains, and may even be growing. The proliferation of advanced weaponry (including nuclear weapons), international terrorist activities, and drug smuggling all constitute new threats to U.S. national security. Faced with these new conditions and the reduced U.S. military budget, the Bush administration has decided to adopt a more flexible and practical strategy of "flexible response." In the area of military construction, the Bush administration intends to maintain a military deterrent to the Soviet Union as well as the capability of responding to an unfavorable change of policy in the Soviet Union, and it also intends to strengthen U.S. ability to deal with other conflicts. The Bush administration intends to carry out appropriate reductions of foreign bases and troops while maintaining a military presence in such strategically important regions as Europe and the Asian-Pacific region. It intends to carry out an appropriate reduction of personnel while achieving more highly trained and well-equipped forces which have the flexibility to deal with every sort of emergency. In order to achieve this,

the Bush administration has decided to reduce the number of U.S. military personnel by 300,000 (to 1.8 million) by 1994. Five of the U.S. Army's 28 divisions will be eliminated. The Navy's 560 ships will be reduced by 50 or 60, and the 36 wings in the Air Force will be reduced to 31. The EASI is an important measure taken by the Bush administration in the wake of this readjustment of U.S. defense policy.

### The Impact of EASI

1. It will lessen the degree of confrontation in Asia between the United States and the Soviet Union and facilitate an improvement of security conditions in the Asian-Pacific region. However, the military standoff between the United States and the Soviet Union in Asia will not undergo a fundamental change.

The Soviet Union's troop reductions in Asia and the implementation by the United States of EASI has led to a reduced U.S. and Soviet military presence in Asia, brought about a certain lowering of the U.S.-Soviet military standoff in Asia, facilitated a relaxation and stabilization of the situation in Asia, and helped improve the security situation in the Asian-Pacific region. However, the fundamental fact of U.S.-Soviet military confrontation in Asia has not changed. Even if the United States completes the first stage of EASI, which calls for a partial troop withdrawal from South Korea, Japan, and the Philippines, they will have withdrawn less than 10 percent of their troops stationed in Asia (200,000), and the cuts will have been primarily among logistics support personnel. During the visit by U.S. Secretary of Defense Cheney to Asia in February, he also gave repeated assurances that the United States would maintain its strategy of forward deployment and that the combat strength of U.S. troops stationed in Asia would remain unchanged. Also, even if the Soviet Union carries through with its plan to withdraw 200,000 troops from Asia, its troop strength in Asia will still stand at one million. There has been no fundamental change in the nature of the offensive weapons it has deployed against China. Furthermore, the U.S.-Soviet arms race has switched its emphasis from quantity to quality. The United States is currently stepping up research and development of space weapons, high-tech conventional weaponry, and new nuclear weapons. These factors will exert a new and harmful influence upon the security situation in the Asian-Pacific region.

2. The EASI will spur Japan and other countries to accelerate weapons development in an effort to fill the power vacuum left behind by the United States and the Soviet Union.

The various conflicts in the Asian-Pacific region are deep-rooted and complex. The relaxation of U.S.-Soviet relations has allowed various political, social, ethnic, religious, and territorial disputes which had been temporarily submerged by the East-West "cold war" to burst to the fore. Rapid economic development in the Asian-Pacific region in recent years has also provided some

countries with the economic base needed to develop arms. Furthermore, as Japan works to become a "political power," it is also striving to achieve a powerful military force in keeping with its status as a major power. Under these circumstances, a limited pullback of U.S. and Soviet forces in Asia will prompt Japan and other countries to accelerate development of weapons in an effort to fill the power vacuum left behind by the United States and the Soviet Union. Japan's defense expenditures in 1987 were the third highest in the world, and they broke the military spending limit of one percent of GNP. In terms of its equipment, Japan's Self-Defense Forces are the most modern military force in Asia. Japan's 1990 military budget grew by six percent over the previous year, reaching 4.1688 trillion yen (approximately \$27.8 billion), which is roughly 4.6 times the size of China's 1990 military budget. Last March, Japan formulated the weapons plan for its defense forces for the next period. It calls for Japan to invest 23 trillion yen (approximately \$153.3 billion) between 1991 and 1995 to expand its weaponry. The primary focus will be on raising quality. In addition, the six countries in the Association of Southeast Asian Nations [ASEAN] and South Korea are going to aggressively strengthen their weaponry. Statistics indicate that military expenditures by the six ASEAN nations and South Korea totaled \$35 billion last year, and these expenditures show every sign of further growth. This situation could become a destabilizing factor in the Asian-Pacific region.

3. The EASI will give impetus to an evolution from a trilateral relationship in the Asian-Pacific region between China, the United States, and the Soviet Union into a four-party relationship between China, the United States, the Soviet Union, and Japan.

Since the early 1970's, the course of politics in the Asian-Pacific region has been determined by the trilateral relationship between China, the United States, and the Soviet Union. The trilateral relationship in the Asian-Pacific region between China, the United States, and the Soviet Union has been evolving into a four-party relationship between China, the United States, the Soviet Union, and Japan as Japan's economic, political, and military strength has grown, U.S.-Soviet relations have relaxed, and U.S.-Japanese tensions have heightened. The implementation by the United States of EASI will lessen the military presence of the United States in Asia, and it will put more distance between the United States and Japan in their relations, thereby adding further impetus to the formation of a four-party relationship in the Asian-Pacific region between China, the United States, the Soviet Union, and Japan.

In summary, the implementation by the United States of EASI will have both a positive and a negative impact on the security of the Asian-Pacific region. As the United States and the Soviet Union carry out partial military reductions in Asia, some countries and territories in the Asian-Pacific region, especially Japan, could further bolster their military strength. The international community must remain alert to this possibility.

## U.S. Human Rights Diplomacy Reviewed, Attacked

90CM0138A Shanghai GUOJI ZHANWANG [WORLD  
OUTLOOK] in Chinese No 6, 23 Mar 90 pp 10-12

[Article by Ni Shixiong (0242 0013 7160): "The Cycles  
of U.S. Human Rights Diplomacy and Its Essence"]

[Text] The human rights issue has become a hot spot in current research on international relations. The trend for detente to replace the cold war and dialogue to replace confrontation has introduced many new features into international struggles. One of these is that some capitalist countries, led by the United States, are paying more attention to the slogans "freedom," "democracy," "moral principles," and "human rights" in dealing with socialist countries. U.S. human rights diplomacy has become an increasingly important means for the United States to carry out its strategy of military interference to supplement and promote peaceful change.

### I

Since World War II, U.S. presidents, whether Democrat or Republican, have declared their support for international human rights and, to different degrees, have injected human rights elements into U.S. foreign policy. This has formed an individual rights diplomatic cycle. However, it was President Carter's human rights diplomacy that most openly, most directly, and most clearly proclaimed to the world that human rights was the core principle of U.S. foreign policy.

The first cycle of U.S. human rights diplomacy was the Roosevelt cycle of 1940-48. This cycle began in 1941 with the "four great freedoms" mentioned by Roosevelt. At the same time, Roosevelt also advocated that the United States provide weapons to all countries battling totalitarian aggressors so that the United States became the "arsenal of the democratic system." After the war, the United States took the lead to draft and ratify the UN "Declaration of World Human Rights." Mrs. Roosevelt personally chaired the UN Human Rights Commission (created in 1946). By 1948 this cycle reached its zenith. The second cycle was the Truman-Eisenhower cycle of 1948-60. At that time, East-West relations were becoming increasingly tense, the cold war atmosphere was daily becoming thicker, all of which cast the human rights diplomacy of the first cycle to a low point. In the spring of 1953, the United States said that it did not plan to participate in the human rights treaty passed by the UN General Assembly. To the contrary, it announced that it "wanted to contain the communist world" and uphold the long-term confrontation between the "free world" and the "communist bloc." During this period, geopolitics and military strategy (and not human rights principles) dominated U.S. foreign policy. The third cycle was the Kennedy cycle of 1960-68. Kennedy actively praised "international democracy" and encouraged the creation of an "alliance for progress." In this cycle, except for U.S.-Soviet confrontation over Cuba and the escalation of the war in Vietnam, international

society recognized that Kennedy was different from the previous two presidents on the human rights issue. The Kennedy cycle was marked by a reascendency of the U.S. human rights diplomacy curve. The fourth cycle was the Nixon cycle of 1968-76. The second valley in postwar U.S. human rights policy appeared in this period. After Nixon entered the White House he stated the "sober strategy of detente" of "power, companionable relations, and negotiation," and stepped up the struggle with the Soviet Union for world hegemony. Although the Nixon government supported and ratified the United Nation's international treaty opposing the policy of genocide, it stressed the balance of forces among the major powers and power politics, rejecting the position of human rights in foreign policy. The fifth cycle was the Carter cycle of 1976-80. Marked by Carter's human rights diplomacy, U.S. human rights diplomacy rose again and reached its third peak. Carter paid more serious consideration to the human rights issue than any president since Wilson. During the presidential campaign he impatiently said that the United States should be a "beacon" in safeguarding international human rights. Then, in January 1976 in his inaugural address he announced that the fundamental ideology of U.S. foreign policy was "to protect human rights," and that human rights was the "core" and "soul" of U.S. foreign policy. The Carter government also said that it would use human rights to determine who were friends and who were enemies and stressed that it wanted to use the human rights strategy to check the Soviet Union. This posture was called the "human rights offensive." The combination of the human rights offensive, the policy of relaxation at the time and the trilateralism formed the new tactic of the Carter government's rivalry with the Soviets. The sixth cycle was the Reagan cycle of 1980-88. In the eight years that Reagan was in office, U.S. human rights policy went through a process of varying emphasis. At first, the Reagan government felt that Carter's "strategic contraction" went against U.S. interests and that Carter's human rights diplomacy was "extremist" and "too weak." To change this situation the Reagan government proposed replacing Carter's human rights diplomacy with a tough strategy of "comprehensive containment" and "new flexible response." Thus, in Reagan's first term, a weakening appeared in U.S. human rights diplomacy, but by early 1985 a slight change occurred in the situation: A situation that favored the United States appeared in U.S.-Soviet rivalry, from Soviet offense-U.S. defense, to both on the offensive and defensive, to the United States getting the upper hand. After Gorbachev came to power, there was a new relaxation in U.S.-Soviet relations, and the tense atmosphere relaxed. The Reagan government made some readjustments in U.S. policy toward the Soviet Union, from the single-track strategy of comprehensive opposition or global containment to a dual-track strategy of "negotiation through power," and once again stressed that human rights was "the central principle of U.S. foreign policy strategy." People like Reagan and Schultz at great length raised human rights diplomacy, with a frequency and emphasis no less than that of the Carter era. The seventh

cycle of U.S. human rights diplomacy is the Bush cycle that began in 1988, and judging from the past year or so it seems that the Bush government basically continues the Reagan government's human rights policy unchanged.

## II

From the evolution of the U.S. human rights diplomacy cycles described above it seems that there is one point that is self-evident: Whether human rights policy cycle is emphasized or deemphasized, whether it is ascendant or descendant, whatever new slogans it presents or whatever new actions it takes, U.S. human rights diplomacy invariably serves the U.S. strategic interests of "strengthening the capitalist system and vying for world hegemony." The essence of this is manifested primarily in the following three areas:

1. The U.S. values manifested in human rights has made human rights diplomacy an important means of reorganizing U.S. national power. This was very clearly reflected in the "Report on U.S. National Security Strategy" that Reagan delivered to the U.S. Congress on 20 January 1988. On the one hand Reagan reaffirmed the U.S. values, ideas, and spirit embodied in the human rights issue, stressed that national security strategy must proceed from the values cherished by the nation, and said its ultimate goal was to protect and strengthen these values. On the other hand, during his administration, Reagan first publicly viewed human rights diplomacy as a means for strengthening U.S. power and unabashedly said, "The quintessence of national security strategy is power and in addition to military power as a national power, we also have other means, such as human rights,... etc." Former U.S. Assistant Secretary of State for Human Rights Affairs Abrams also said without reservation, "The struggle between us and the Soviet Union is actually a struggle for human minds and we must win this struggle." When the Reagan government was replaced by the Bush government, the U.S. announced outspokenly that as a result of the "Reagan revolution" not only was economic power restored, but people's minds were won through human rights. After Bush entered the White House, continuing to face relative decline in national power, human rights diplomacy naturally became a sound strategy. As some people criticized, U.S. human rights diplomacy was actively promoted on the basis of U.S. values and national interests to inject the enthusiasm and hope of a new morality into the U.S. world position.

2. Human rights diplomacy became a new U.S. tactic for intensifying the struggle for hegemony with the Soviet Union during the period of relaxation. It is easy for us to see this in the Carter human rights diplomacy from its emergence to its implementation. There is a common point in each cycle of U.S. human rights diplomacy, and that is that it is selective: It is aimed primarily at the Soviet Union and its goal is to escape the passive position of the United States in the struggle for hegemony with the Soviet Union. Another U.S. official

responsible for human rights affairs said, "In the past the human rights issue was a topic of idle conversation in the lobby, pool hall, and dining room, but now it has become the keynote of U.S.-Soviet dialogue." This is right on the money. In his "Report on U.S. National Security Strategy" Reagan said that improvement in human rights is a necessary condition for improved U.S.-Soviet relations. Reagan said, "We have decided on four topics to discuss with the Soviet Union. They are: human rights, disarmament, regional conflict, and bilateral relations. We have indicated that U.S.-Soviet relations can advance essentially only on the basis of major advances in these four areas." That is, the human rights issue has become a central part of U.S. policy toward the Soviet Union. It should also be noted that in the past few years there have been two schools of thought in the United States on how to implement human rights diplomacy with regard to the Soviets. One school thinks that, because of the increased threat of nuclear war, it is absolutely necessary to reach a reconciliation between the United States and the Soviet Union. Continuing struggle between the United States and the Soviet Union over the issue of human rights is unfavorable for reconciliation, and not only can it not change the Soviet Union's rights violations behavior, but it may intensify already tense relations. This school stresses that Soviet violations of human rights cannot be ignored but should not be overdone. They should know when to stop. The other school holds that the Soviet Union's human rights violations stem from the dictatorial system and only if the Soviet social system is changed the Soviet Union can be prevented from foreign expansion and human rights violations and can human rights can be protected. This school holds that the United States should on the one hand support the Soviet Union's reform of "moving in a direction favorable to the United States," and launch a "counter-offensive" directed at the Soviet Union's rights violation behavior; on the other hand, it insists on the Soviet Union's actual performance in improving on the human rights issue as a precondition for talks with the Soviet Union to ameliorate bilateral relations so that it will enter the scope of U.S. "allied policy" toward the Soviets. Currently, the latter viewpoint holds the upper hand, indicating that the United States has raised human rights diplomacy to the height of an overall strategic goal with regard to the Soviet Union.

3. Interference in the name of human rights. The U.S. Government has publicly announced that the goals of U.S. human rights diplomacy are: a) To demonstrate at home and abroad the international duty to safeguard human rights that the United States has assumed. b) To oppose dictatorial regimes and intervene in their rights violations. It is clear that U.S. human rights diplomacy from the time it began had a clear foreign intervention nature. Throughout, the United States has used the issue of human rights in the Soviet Union as a blind; everyone knows this. But what is more outstanding in the past few years is that the U.S. Government and the U.S. Congress have constantly used the human rights issue to interfere

willfully in the internal affairs of China. This interference was exhibited in China's population policy, the Tibet issue, and especially in the "4 June incident." After the Chinese Government put down the disturbances and counterrevolutionary rebellion, on the basis of fabricated facts and false intelligence, the U.S. Congress and the U.S. government flagrantly interfered in China's internal affairs on human rights grounds, not only carrying out economic sanctions against China, but also proposing various political conditions for the restoration of normal relations. This clear and blatant interference is a complete violation of international law. The "Declaration of International Rights and Responsibilities" passed by the United Nations in 1949 clearly stipulates: "Countries have the right to independence and thus have the right to freely exercise all lawful authority, including the selection of form of government"; "countries are not to encourage internal disorder in other countries and have the responsibility to prevent the organization and encouragement of this type of internal disorder within their own borders." Faced with this type of interference, naturally the Chinese people should express their extreme indignation and resolute opposition.

Dr. Kissinger has said that "Rarely is there a day when the U.S. Congress doesn't censure some foreign country and rarely is there a day when the government doesn't make irresponsible remarks about the internal affairs of some country in the world. The strange thing also is that U.S. power is gradually weakening, but its efforts to interfere on a global scope seem to be increasing... Can we really act as schoolmaster and instruct the countries of the world on their internal affairs forever? Are we qualified to give guidance to countries from Asia to Latin American on internal politics and sometimes even force our views on them?... If this continues, the United States may become a shrew nagging about world affairs all day, while at the same time it loses its ability to influence the situation." Reading these splendid words of Dr. Kissinger, one cannot help but think of a little episode that occurred 10 years ago: Then U.S. Secretary of State Vance arranged to meet Soviet Foreign Minister Gromyko and was prepared to condemn the Soviet Union's violations of human rights and oppression of those who hold different political views. However, right before the two men met, the U.S. ambassador to the United Nations, Andrew Young, disclosed to the French newspaper L'HUMANITE: "There are thousands and thousands of political prisoners locked up in U.S. prisons," "during the Carter period in the United States there were 7.6 million people living below the poverty level." This hit the sore spot of Carter's human rights diplomacy and there was a public outcry over it. Carter was angry, Vance was in a tight spot, and people of the world could see its hypocrisy. This example and all the U.S. actions on the human rights issue show that under the banner of human rights the United States is doing its utmost to cover up domestic contradictions. Interference

abroad, expansionist policy, and human rights diplomacy are actually "a two-sided sword" of U.S. global strategy.

### **Bush Says U.S. To Maintain Superpower Role**

OW2207014690 Beijing XINHUA in English  
2349 GMT 21 Jul 90

[Excerpts] Washington, July 21 (XINHUA)—President George Bush today vowed to maintain America's superpower muscle in the post-cold war era.

Bush declared that "today we must maintain a policy of peacetime engagement and armed forces sufficient to sustain our vital national interests" as in the times of war when America waged fights "far from our shores."

Bush made the remarks at the christening of a new gigantic nuclear aircraft carrier "The George Washington" at Newport News, Virginia. [passage omitted]

Bush used the opportunity to wage a counterattack on Democrats who have been pressurizing the administration for big cuts in the 1991 defense budget on grounds of a waning Soviet threat. Bush argued that while the West has made great gains, "we have not entered an era of perpetual peace."

"What George Washington said in the 18th century is truer today than it ever was: 'To be prepared for war is one of the most effective means of preserving the peace'," Bush said.

Bush also dismissed a widely-held suggestion that as the United States is on the decline, its superpower status is giving way to a multipolarization in the international arena.

He insisted that "American power is still the world's paramount force." "We are inescapably the leader of free-world defense, the connecting link in a global alliance of democracies, the pivotal factor of stability. And we will not shrink from this responsibility," Bush claimed.

### **Role of U.S. Navy in Future Warfare Viewed**

HK0907145390 Beijing SHIJIE ZHISHI [WORLD KNOWLEDGE] in Chinese No 12, 16 Jun 90 p 30

[Article by Lu Xinmei (7120 2450 2734): "The United States Stresses Its Navy Building"]

[Text] The new national defense budget for 1991 shows that there will be a cut in expenditures for the three armed services of the United States. However, a detailed analysis of the budget demonstrates that the slash of navy expenditures is much smaller than those for the land and air forces and there is even increase in some individual items. Expenditures for the navy in the new budget amount to \$99.5 billion, which basically maintains the 1990 budgeted total. Six thousand personnel and nine warships are being reduced, thus keeping the



level of 546 warships. The navy will purchase, as planned, one Trident submarine and 50 Trident II missiles and buy more planes and other types of missiles than in this fiscal year. The spending for shipbuilding will increase by 14.2 percent over this year, totaling \$11.357 billion. Then, why will a cut in expenditure occur?

**The Navy is a pillar upon which the United States maintains its leading position in the global alliance on the sea and keeping the channel for its economic and trade relations with other countries unobstructed.** After World War II, to meet the needs of the Cold War, the United States established alliances with some European, Asian, and Latin American countries, such as the North Atlantic alliance, the Pacific alliance and the Rio de Janeiro alliance, and concluded bilateral agreements with many countries, thus establishing its leading position in a global alliance on the sea. To meet the needs of power politics in the future, the United States still needs to maintain its position of maritime overlord. Nor is this all; a large number of both U.S. imports of major materials and exports of industrial products depend on maritime transport lines. U.S. foreign trade increased from \$482 billion in 1980 to \$776 billion in 1988. In order to expand its economic and trade relations with other countries, the United States also needs to strengthen its building of fleets to control the sea and keep its maritime channels clear and safe. In addition, the U.S. Navy frequently sends ships to visit allies and friendly countries, carry out joint military maneuvers, and conduct military training. This has extended U.S. influence and safeguarded the U.S.' leading position in the West. In this respect, other military services cannot play the same role as the navy.

**The Navy plays an important role in U.S. forward deployment strategy, acting as a fast deterrent striking force and a task force against low-intensity conflicts.** The United States always pursues a forward deployment strategy, namely, deploying its naval force as much as possible in the territories of its allies, its naval bases throughout the world, and forward areas on the seas. In peacetime, it terrorizes potential enemies with its military force and in wartime, it tries to defeat the enemy right in its own waters or territories so as to keep the flames of war as far away as possible from U.S. metropolitan territory. For many years, the United States has followed such a forward deployment strategy to deter Soviet territorial expansion, strengthen the confidence of its allies, and guarantee the use of areas with major material resources by Western countries. The United States believes that the victory of a future world war lies in the control of such important regions as the Atlantic Ocean, Norwegian Sea, Mediterranean Sea, Pacific Ocean, and Indian Ocean. In recent years the United States has also stressed the need to deal with low-intensity conflicts and terrorist activities. With overseas bases continuously decreasing, the United States pays ever increasing attention to the role of its navy as a striking force throughout the world. Statistics show that between 1946 and 1988, the United

States called out its troops to meet different types of crises in different parts of the world on more than 200 occasions, and 80 percent of the action was taken by its naval force. As a fast task force cruising on the sea, the navy fully displayed its capability in attacking Libya, dispatching its troops to Grenada, and offering escort in the Indian Ocean.

**Strategic missiles launched from submarines constitute a major part of U.S. strategic nuclear force because of its low cost and strong survival capability.** The U.S. Navy now has 624 strategic missiles launched from submarines, with a total of 5,472 warheads, which account for almost 50 percent of total strategic nuclear warheads, but their expenditures make up 25 percent of total expenditures for its strategic nuclear weapons. Missiles launched from submarines are not only an important first U.S. nuclear striking force but also constitute the major element of the U.S. three-in-one strategic nuclear force: maneuverability, sustaining power, and strong survival capability. For this reason, they are also a second major U.S. nuclear striking force.

**No other force can replace aircraft carriers in terms of command of the sea and maritime warfare.** In the 1990's or for an even longer period, large aircraft carriers equipped with different models of fighters, with the support of other fighting warships, will continue to be the only important force for control of the sea and a mainstay of naval operations. Aircraft carriers provide the only means by which aircraft can be used for control of the sea. Only by using aircraft carriers can the United States carry out strategic transport, throw troops into battle, use a strategic deterrent, and react quickly and effectively to any incidents which infringe upon U.S. interests. Because of the flexibility and maneuverability of aircraft carrier formation, since World War II, whenever a U.S. president encountered a crisis, the first thing he did was to determine the position of U.S. aircraft carriers and issued orders to immediately deploy them to the site of the incident. When drawing up war plans, every chairman of the Joint Chiefs of Staff should maintain at the least 20 aircraft carrier formations. Now that U.S. military bases on land are decreasing, aircraft carriers have become even more important to the United States in the protection of its interests.

**The Marine Corps is the only unit for amphibious warfare and constitutes an important part of the U.S. quick striking force because of its high level of vigilance.** The Marine Corps of the U.S. Navy is always regarded as a fighting force which has a stronger fighting capability and higher level of alertness than any of the other services. Marine corps which are deployed on amphibious warfare vessels and charged with fighting and logistics supply can independently deal with any kind of potential situation, ranging from terrorist activities to limited wars. In terms of reaction time, the marine corps are of course better than the quick striking force of the army because they are always close to the site of an incident. Current U.S. Joint Chiefs of Staff chairman Bauer recently disclosed that during last year's coup



attempt in the Philippines, a Marine Corps unit happened to be off the coast of the Philippines; if it was asked to take action, it would have been much quicker than the army's airborne troops. The U.S. Marine Corps achieved brilliant combat gains during World War II. In wars in the future, the United States will not be able to get away from amphibious warfare, and the Marine Corps will still constitute an important, indispensable component of its overseas warfare force.

### **U.S. Warns NATO Against Soviet Threat**

*OW2406071090 Beijing XINHUA in English  
1757 GMT 22 Jun 90*

[Text] Brussels, June 22 (XINHUA)—NATO nations should not overlook the military threat of the Soviet Union while enjoying the fact that "the cold war is over," a top U.S. official warned here yesterday.

In a speech at a two-day seminar sponsored by the Belgian Defense Study Center on June 21 to 22, H.P. Wolfowitz, U.S. Under Secretary of Defense for Policy, said the Soviet Union would continue to present the most worrisome combination of military power and political volatility in Europe and no other country would come close.

Referring to strategic weapons, he pointed out, "while we debate deep cuts in our programs, Soviet production continues virtually unabated."

Despite crushing economic problems, the Soviet Union was still keeping a priority in highly modern conventional forces, he added.

## **SOVIET UNION**

### **Soviets Warn U.S. Against Contact With Opposition**

*OW1907022690 Beijing XINHUA in English  
0137 GMT 19 Jul 90*

[Text] Moscow, July 18 (XINHUA)—Soviet presidential press secretary Arkadiy Maslennikov said today that the U.S. intention to come into contact with Soviet leader Mikhail Gorbachev's opposition "cannot but raise questions and bewilderment."

The opposition refers to those who quit the Soviet Communist Party at its 28th Congress last week, according to the TASS news agency.

Maslennikov quoted THE WASHINGTON POST's report as saying that U.S. Secretary James Baker agreed with conservative U.S. circles that it should not pin all hopes on Gorbachev, but should also establish contact with his opposition.

He said the statement "cannot but raise questions against the background of positive assessment of the party congress made by the international public and western political circles."

If the intended contacts with the opposition conceal "a desire to influence the development of the political situation in this country," it "could be assessed as an interference in the Soviet Union's internal affairs," he said.

Maslennikov said that "the results of the congress will benefit not only the Soviet Union, but the whole international community and will improve the international situation."

Boris Yeltsin, president of the Supreme Soviet of the Russian Federation, Moscow Mayor Gavriil Popov, and Leningrad Mayor Anatoliy Sobchak quit the Soviet Communist Party at its 28th Congress, which was held July 2-13.

### **Gorbachev Views International Ties at Party Congress**

*OW0307103190 Beijing XINHUA in English  
1735 GMT 2 Jul 90*

[Text] Moscow, July 2 (XINHUA)—Mikhail Gorbachev, general secretary of the Soviet Communist Party Central Committee, justified here today the Soviet leadership's understanding of three key premises of international relations.

He described the first premise as that a country cannot ensure its own security and uphold its own interests at the expense of any other country's.

The recognition of every people's freedom of choice is a fundamental precondition for building up a new type of world order, Gorbachev said in a lengthy political report at the opening session of the Soviet party's 28th congress today.

The second one, he said, is that it is impossible to bring about a prosperous, free and democratic society by doing it alone and by setting one's option of social development up against other options. He said co-development, co-creativity and cooperation are imperative at the present time.

The third premise is the incorporation of the Soviet economy into the world economy, he said. This is necessary not only for the modernization of the Soviet economy, but also for the construction, together with other peoples, of the material foundation of an irreversibly peaceful period of history, and for the resolution of the global problems of humanity.

On Soviet-U.S. relations, he said there has been a swing from competition in the arms race to mutual understanding and even to partnership on a number of issues.

Relations with China have been normalized, Gorbachev said, adding that it is a matter of tremendous importance for both great nations and the world as a whole.

Speaking about disarmament, including nuclear disarmament, Gorbachev said it has been underway for the

first time in Europe. "The European process has begun to produce an unprecedented form of international relationship of scores of nations and peoples," he said.

Touching on changes that have taken place in Eastern Europe, Gorbachev noted that "where these countries will go in their social and economic development will depend on the peoples concerned."

He said that his country has acted and will continue to act in strict compliance with the principle of freedom of choice, which has become imperative for progress and a condition for the survival of all modern civilizations.

Gorbachev said the Soviet Union will build its relations with these countries as good neighbors.

### USSR To Continue Military Presence in Vietnam

*OW2906002690 Beijing XINHUA in English  
0623 GMT 27 Jun 90*

[Text] Moscow, June 26 (XINHUA)—The Soviet Union will continue its military presence in Vietnam, though it advocates complete withdrawal of foreign troops from all countries, a Soviet official said here today.

Gennadiy Gerasimov, head of the Soviet Foreign Ministry Information Department, said the issue of Soviet military withdrawal from Vietnam will depend on the situation in the area and responses to the Soviet proposal on lowering the level of military antagonism in the Asia-Pacific region.

Earlier on January 18, Soviet Foreign Ministry spokesman Vadim Perfilev announced that the Soviet Union still kept in Vietnam's Cam Ranh Bay a fighter squadron of 6-10 aircraft, but he did not specify.

On relations between the Soviet Union and the Democratic People's Republic of Korea (DPRK), Gerasimov said that the Soviet Union is going to strictly follow the principle of noninterference in DPRK's internal affairs and to support DPRK's constructive proposals on easing tension on the Korean Peninsula.

He stressed there is no change in the Soviet position on peaceful unification of Korea, saying to conduct extensive dialogues between the North and South is the best way to Korean unification.

Gerasimov also refuted a report in the Japanese YOMIURI SIMBUN quoting an "adviser" to President Mikhail Gorbachev as saying that the Soviet Government is preparing to establish "a free economic zone on four islands in the south of the Chishima Archipelago," and that the issue will be settled when Gorbachev visits Japan next year.

The four islands referred to are the Etorofu Island, Kunashiri Island, Shikotan Island, and Habomai Island, a disputed territory that has haunted the Soviet Union and Japan since the World War II.

Gerasimov said the place where the Soviet Union is considering for a free economic zone in the Far East is Nakhodka.

However, he added, the establishment of free economic zones is a matter of Soviet internal affairs and needs no foreign approval.

### Soviet Pilot Seeks Political Asylum

*OW1906004390 Beijing XINHUA in English  
2348 GMT 18 Jun 90*

[Text] Ankara, June 18 (XINHUA)—A Soviet pilot today landed a 12-seat passenger plane on a beach on the Black Sea coast of Turkey and requested political asylum, the state-run television reported.

Pilot Valeriy Yurevic, 29, flew the Antonov-2 type airplane into the Turkish airspace and landed on a beach in Kandira, a town of Kocaeli Province at 12:45 (local time).

Yurevic got off the plane and went to a local gendamerie post and ask for political asylum.

The Turkish Interior Ministry is studying Yurevic's request the report said.

The semi-official ANATOLIA NEWS AGENCY reported that the Soviet Union has asked the Turkish Government to return the plane and the pilot.

The official Soviet News Agency TASS said that the Antonov-2 plane was hijacked in Izmail, near the Ukrainian port of Odessa.

Turkey's General Staff Headquarters said in a statement that the Turkish air defense system was closely following the Soviet plane until it landed.

In May last year, Soviet pilot Aleksander Zuyef landed a MiG-29 fighter plane of the Soviet Air Force in Turkey's Black Sea city of Trabzon to seek political asylum. The fighter was returned to the Soviet Union within a day.

## NORTHEAST ASIA

### Japan's Intention To Restrain Defense Budget

*OW1707114190 Beijing XINHUA in English  
1055 GMT 17 Jul 90*

[Text] Tokyo, July 17 (XINHUA)—Japanese Defense Agency Director General Yozo Ishikawa said today that Japan will try to restrain its defense budget growth since the Soviet Union has agreed that a unified Germany can be part of the North Atlantic Treaty Organization (NATO).

The KYODO NEWS SERVICE reported that Ishikawa told the Japanese media that changes in Europe toward an easing of tension will eventually reach Asia.

To win public understanding of the effect of the international situation on the defense budget, "it is natural that we try as much as possible to restrain the scale of the defense budget," he said.

But he also said that restraint on defense budget growth will not be "clearcut," because of pressing hikes in personnel expenses, hardware price increases due to the yen's depreciation, and payments for previous purchases of weapons.

Japan has been trying to justify its continued military buildup by citing differences between the situations in Europe and Asia and the persisting Soviet threat in Asia.

The Japanese Defense Agency has sought at least a 6-percent annual increase in defense spending for the fiscal 1991 national budget, which starts April 1, 1991.

#### **Japan Cautious About Economic Aid to USSR**

OW2906112090 Beijing XINHUA in English  
1406 GMT 28 Jun 90

[Text] Tokyo, June 28 (XINHUA)—Japanese Prime Minister Toshiki Kaifu expressed here today Japan's caution over West European proposals to offer economic aid to the Soviet Union to help promote the country's perestroika restructuring efforts.

Kaifu said at a nationally broadcast news conference that because of a longstanding territorial dispute, Japan in dealing with the Soviet Union "differs" from Western Europe, the United States and other major aid donor countries.

Federal Germany and France are the main proponents of a scheme to assist Soviet President Mikhail Gorbachev in his plans to restructure the flagging Soviet economy.

U.S. Secretary of State James Baker plans to consult with U.S. allies on the matter.

Kaifu said, however, Japan "is prepared to offer as much economic cooperation as possible" to the Soviet Union "when the necessary time comes."

He said Japan and the Soviet Union have concluded no peace treaty, because the Soviet Union has occupied three islands and a group of islets just east of Hokkaido, northern Japan, after World War II.

But the prime minister said he hoped to exchange views on Soviet aid proposals at the annual summit of seven major industrial countries in Houston on July 9-11.

Kaifu also said that he hoped Soviet President Gorbachev will come to Tokyo early next year, and that his visit will provide a divide in bilateral relations.

The prime minister said "if necessary", he would also consider a return visit to Moscow after Gorbachev's trip to Japan.

#### **Anti-U.S. Rally in North Korea Described**

OW2506194990 Beijing XINHUA in English  
1527 GMT 25 Jun 90

[Text] Pyongyang, June 25 (XINHUA)—Over 200,000 citizens from various strata held a rally and demonstration at the Kim Il-song Square here today to mark the 40th anniversary of the starting of the last Korean war.

They condemned the United States for its crimes against the Korean people in that war and urged it to immediately stop interference in the internal affairs of Korea and withdraw its forces and nuclear arms from South Korea.

Choe Mun-son, chief secretary of the Pyongyang municipal committee of the Korean workers' Party and chairman of the Pyongyang Municipal People's Committee, addressed the rally. He severely accused the United States of its crimes of aggression and massacre against the Korean people during the war and its continuous obstruction to the independent and peaceful reunification of Korea after the war, its rejection of peace programs from the north side and its repeated military exercises with the north as the targets.

He pointed out that it is urgent to ease tension in the Korean peninsula and maintain peace in Asia. He demanded the United States withdraw all its troops and nuclear weapons from South Korea.

Present at the rally were Pak Song-chol, vice president of the Democratic People's Republic of Korea, Kang Hui-won, vice premier of the Administration Council, Kim Jong-rin, member of the secretariat of the Central Committee of the Workers' Party, and other Korean party and state leading members. Also on the occasion were foreign diplomatic envoys in Pyongyang.

#### **South Koreans in 'Absolute Poverty' Noted**

OW0507115090 Beijing XINHUA in English  
1131 GMT 5 Jul 90

[Text] Pyongyang, July 5 (XINHUA)—Over 3.315 million people in South Korea are living in a state of absolute poverty, seven percent of the total population, according to reports from Seoul.

In South Korea, those living in absolute poverty are defined as those with a monthly income of less than 48,000 won (about 66.6 U.S. dollars) and 3.4 million won in family property (4,722 U.S. dollars) receiving social relief. The level also includes those with a monthly income of less than 54,000 won (75 U.S. dollars) and 5.4 million won in family property (7,500 U.S. dollars) in need of medical relief.

The highest level of people in this position is 527,000 in Chollanamdo Province and the lowest 256,000 in Seoul.

The figures show that the absolute poverty percentages are far ahead of those in Taiwan and Japan.

**Political Developments Viewed in Mongolia**

*HK0607090190 Beijing SHIJIE ZHISHI [WORLD KNOWLEDGE] in Chinese No 12, 16 Jun 90 pp 10-11*

[Article by Ma Kangmin (7456 1660 3046): "Changes in the Country of Grassland"—first paragraph is SHIJIE ZHISHI introduction]

[Text] The rise of opposition parties and the thorough reorganization of the Mongolian People's Revolutionary Party [MPRP] and the government have brought about noticeable changes in the political field in Mongolia. At present, although the [MPRP] still holds the ruling position and society remains tranquil on the whole, the forthcoming general elections will give rise to another round of rivalry between various political forces.

Late last year, some abrupt events occurred in the Mongolian People's Republic [MPR], the "country of grassland," which was always calm. In several eventful months, some noticeable changes occurred in the political life of the Mongolian people.

**The Emergence of Opposition Organizations**

On 10 December 1989, in the square in front of the Youth Cultural Center in Ulaanbaatar, the capital of the country, about 100 or 200 intellectuals, mainly journalists, held a rally and delivered speeches. They announced the founding of the "Democratic Alliance of Mongolia." It was said that many people there were members of the secret organizations "Blue Mongolia" and "New Times." After that, a number of organizations with different political attitudes, such as the "Democratic Socialist Movement," the "New Progressive Alliance," the "Patriotic United Front," the "Worker's United Federation," the "Alliance of Peasants and Herdsmen," and the "Alliance of Buddhists," were founded one after another.

The "general coordinator" of the Democratic Alliance of Mongolia is 27-year-old Zhuolige [0587 0500 2706], a teacher of scientific communism at the National University. This organization first flaunted the banner of "not opposing the party and the government," "supporting Mongolia's reforms," and "accelerating the reform process," so that it could attract some workers and lamas. With the expansion of its political influence, the "Democratic Alliance" continually changed its political slogans. Later, it openly called for "abolishing the unlimited power of the MPRP" and "thoroughly abolishing the Stalinist system." It also demanded that former leader Tsedenbal be brought to open trial. The leading figures of this organization also separately went to various industrial enterprises and pastoral areas to drum up support for its ideas and to establish grassroots branches. It is said that members and supporters of this organization nationwide now number more than 60,000, against a total population of more than 2 million. So far, the Democratic Alliance has organized more than 10 mass rallies, demonstrations, and hunger strikes in Ulaanbaatar to exert pressure on the ruling authorities.

On 18 February this year, the Democratic Alliance held its first national congress and announced the founding of the Democratic Party of Mongolia. For nearly 70 years previously, the ruling MPRP had been the only party in the country, and this situation was thoroughly changed. After the founding of the Democratic Party of Mongolia, it made its action program and slogans more radical. It said that Mongolia "has been bogged down in a social, economic, political, psychological, and moral crisis," and called for "trying and punishing the people who attached the nation to a foreign country and drew the nation into the economic crisis of huge foreign debts." After that, the Democratic Progressive Party, the Liberal Labor Party, and the Green Party were founded one after another. In the political field of Mongolia there appeared the situation of multiparty coexistence. ling Party and the Government

The attitude of the ruling MPRP and the Mongolian Government toward the appearance and existence of opposition organizations changed several times. At first, they did not recognize or ban opposition organizations. Later, some leaders in their speeches affirmed that the organizations were "part of the people," and recognized their legality. Dialogue was carried on between the two sides. The government also adopted such concessionary measures as closing shops, hospitals, and sanatoriums offering special services to ministry-level officials. At the same time, the government also resisted and criticized the radical activities of the opposition organizations.

In view of the new domestic situation, the MPRP held the eighth plenary session of its 19th Central Committee ahead of schedule. At the meeting, General Secretary Batmonh announced the collective resignation of the Politburo and the Secretariat. G. Ochirbat, 61, former chairman of the Trade Union Central Council, was elected general secretary, and a new five-member Politburo was formed. None of the former Politburo members remained in the new Politburo. The Central Committee plenum also decided to expel Tsedenbal, who was relieved of government and party posts, from the party. On 21 March, the Eighth Session of the 11th People's Great Hural was held ahead of schedule. P. Ochirbat, 48, former minister of foreign economic relations and supply, and Gungaadorj, 55, former deputy chairman of the council of ministers in charge of agriculture, respectively replaced Batmonh and Sodnom as chairman of the Presidium of the People's Great Hural (head of state) and chairman of the Council of Ministers (government leader). At the same time, members of the Presidium of the People's Great Hural and deputy chairmen of the Council of Ministers were also changed. At present, all party and government leaders have been changed. Such a thorough change in party and state leadership in a short period of three months is unprecedented in the history of the MPR. The People's Great Hural session also decided to delete from the Constitution the article concerning the leading role of the MPRP. External observers hold that the current party and government leading bodies are composed of people in their prime who wish to advance political and economic reforms.

### The New Program of the Ruling Party

After the reorganization of the leading body, the MPRP held a special national congress on 10 April. The 926 deputies to the congress were directly elected by the 90,000 party members for the first time. The congress adopted the new party program and new party constitution, put forward the explicit guideline of "building humanitarian and democratic socialism," and decided to set up a special committee to investigate and draw political conclusions about former party and government leaders' who, by following Tsedenbal from the late 1950's to the mid-1980's, engaged in "activities harming the party's prestige." The special party congress elected a new 91-member Central Committee, 80 percent of the members being new faces. The congress also elected a six-member Central Presidium to replace the former Politburo. G. Ochirbat was elected chairman of the party Central Committee.

At the special party congress, G. Ochirbat delivered a report on carrying out in-depth reform and transforming the party. In the report, he acknowledged the party's past errors and current serious difficulties, and pointed out that the present task for the party was to build a democratic model by combining modern democracy with Mongolian characteristics. The congress pointed out that the objective of the MPRP is "to defend the fundamental interests of the Mongolian people and guarantee the free development and happy life of every citizen." It indicated its willingness to cooperate with other political parties and "open the door" to all classes and social strata. It upheld the establishment of multiple forms of ownership and a market economy under state regulation. It announced that it will pursue a nonaligned foreign policy and develop friendly relations with all countries in the world, with stress on "first attaching importance to the all-round development of friendly relations with the Soviet Union and China."

On 10 May the Ninth Meeting of the 11th People's Great Hural passed the "Law on Mongolian Political Parties" and the "Constitution Supplementary Law," stipulating that all political parties should coexist on an equal footing and that no political party aimed at "destroying Mongolia's sovereignty and independence and disrupting the country's unity and reunification" is allowed. It decided to establish the Small Hural to replace the Presidium of the People's Great Hural as the permanent supreme organ (the People's Great Hural remains the highest organ of power) and establish the posts of president and premier.

Following the promulgation of the "Law on Mongolian Political Parties," the MPRP pledged to firmly reform itself and increase its influence, while trying to win the confidence of the people "through activities benefiting the country, society, and people" so as to continue to hold on to its position as ruling party.

The MPRP is at present still in power. Public order in Mongolia is basically normal, but there are still elements

of instability. In mid-April the Democratic Alliance, Democratic Party, Democratic Socialist Movement, and Democratic Socialist Party jointly established the "League of Mongolian Democratic Forces." These organizations continuously organized strikes, assemblies, and demonstrations, put pressure on the new government and demanded the dissolution of the People's Great Hural and the establishment of a provisional committee. The Mongolian Government called out troops and police to guard government buildings. Nationwide elections will be held in Mongolia in July. It is estimated that there will be another contest among different political forces and new developments and changes in the political situation in Mongolia.

### SOUTHEAST ASIA/PACIFIC

#### Vietnam Deals With Economic, Social Problems

##### 'Difficult' Economic Situation

OW2706232390 Beijing XINHUA in English  
1409 GMT 27 Jun 90

[Text] Hanoi, June 27 (XINHUA)—Delegates of the Vietnamese National Assembly are worried about the current political and social situations in the country, according to a press report here today.

The current Seventh Session of the Eighth National Assembly of Vietnam heard yesterday a round-up of opinions from local delegations on the report of the Council of Ministers on economic and social developments in the first six months.

The round-up said that the delegates agreed that there had been some progress in agricultural production, price stabilization and export business. But they were generally of the view that the report of the Council of Minister failed to give a clear account of the true situation in the country, "was not serious enough" and "contained a certain amount of whitewashing."

It said, "It should be noticed that the situation remains far more difficult and has become even graver in some domains, and that production in some sectors is stagnant or declining."

The round-up listed some of the "worrisome" matters such as serious shortages of chemical fertilizer, a general decline in production in industry and handicrafts with the exception of only a few units, the existence of very tough problems in banking, finance and the balance of payment in the national budget, and the failure to solve basic problems in social, cultural and educational work and those with mountainous regions.

##### 'Grave' Social Problems

OW2706012390 Beijing XINHUA in English  
1404 GMT 26 Jun 90

[Text] Hanoi, June 26 (XINHUA)—Ho Chi Minh City, the largest city in Vietnam, is beset with grave problems

in education, medical and health services, and employment, according to a report carried in the Vietnamese official daily NHAN DAN.

The report said that more and more teachers in Ho Chi Minh City have quit their jobs, and not a few of them were fine veteran teachers. During the 1989-1990 school year, over 6,000 teachers left the educational occupation, three times the number in the previous year. Meanwhile, the number of students in ordinary schools has been reduced by 35,000, about 10 percent of the total. There are more than 300,000 illiterates, about 9 to 10 percent of the city population.

The report said that the city's financial allocation for medical and health services can only meet 60 percent of the needs.

The report of NHAN DAN said that unemployment has been increasing. There are about 230,000 unemployed in the city; among them 80 to 90 percent are youths.

## NEAR EAST/SOUTH ASIA

### Middle East Situation Seen Deteriorating

OW0607100690 Beijing XINHUA in English  
0710 GMT 6 Jul 90

[Text] Beijing, July 6 (XINHUA)—The formation of the Israeli right-wing Government followed by U.S. suspension of dialogue with the Palestine Liberation Organization (PLO) are the two main factors that have blocked the peace process in the Middle East.

An article carried in the PEOPLE'S DAILY yesterday analyzed the crux of the cause of the deteriorating situation in the Middle East region.

The article said that until recently, the Middle East peace process had been making headway somewhat, thanks to the efforts made by the parties concerned.

The PLO last year accepted U.N. Resolution 424 and recognized Israel's right of existence. In response, Israel advanced a plan for a limited rule and election in the occupied Arab lands and accepted in principle the U.S. plan for a direct PLO-Israeli dialogue. The U.S. Government also started dialogue with the PLO.

However, the article said, just when the situation took a turn for the better, the new Israeli right-wing Government headed by Likud bloc leader Yitzhak Shamir assumed an attitude obviously hostile to the Palestinian people.

Apart from refusing to have dialogue with the PLO, the new Shamir government increased the number of Jewish settlements in the occupied territories and intensified the repression of the Palestinians there. Some Israeli military hardliners even threatened to wage another war against Arab countries.

The new Israeli Government, believed by Westerners to be the most conservative and combative one in history, can hardly be expected to do anything positive on the Mideast issue, the article said.

It added that the U.S. decision to suspend dialogue with the PLO was undoubtedly one to satisfy the needs of the Israeli right-wing extremist forces in contravention with the professed U.S. goal of Mideast peace.

For some time after its inauguration, the Bush administration acted more as a "mediator" between the two conflicting sides than as a firm supporter of Israel like its predecessors. It was unhappy about the doings of the Israeli extremists and actively encouraged Israeli-PLO dialogue.

But when it came to something very crucial, it could not ignore the pressures from the U.S. Jewish lobby and refrain from being biased for Israel.

Washington still wants to promote PLO-Israeli dialogue, but has suspended its own dialogue with the PLO. It wishes to advance the Mideast peace process, but sides with the right-wing government against the peaceful forces.

In so doing, the United States has landed itself into a self-contradictory position and aggravated the instability and unrest in the Middle East, the article concluded.

### Iraq Calls U.S. Comments on Arms Buildup 'Unjust'

OW1706210990 Beijing XINHUA in English  
1833 GMT 17 Jun 90

[Text] Baghdad, June 17 (XINHUA)—Iraq today defended its right to self-defense and said criticism of its arms program by the United States was "unjust and biased."

This came in remarks made by Under-Secretary of the Iraqi Foreign Ministry Nazar Hamdoun in response to a statement by U.S. Assistant Secretary of State John Kelly who said on Friday that the Iraqi drive to develop nuclear and chemical weapons had put the gulf state on a collision course with the United States and the West.

Kelly's allegation indicated the fact that "Iraq adheres to its inalienable rights and those of the Arab nation for life, security and stability," Hamdoun was quoted by the official Iraqi news agency as saying.

"This means that the U.S. does not want Iraq and the Arab nation to live in dignity and to have the rights to defend their sovereignty and security," he added, but fell short of denying that his country is developing unconventional weapons.

Iraqi President Saddam Husayn announced in April that Iraq did not need nuclear weapons because it possessed binary chemical weapons and would use them against Israel if attacked.

The U.S. Congress has recently urged the Bush administration to impose sanctions against the Iraqi Government because of its alleged human rights violations and its buildup of long-ranged missiles, chemical weapons and other advanced military systems.

## WEST EUROPE

### Tiananmen Dissident's Book Published in England

90CM0141A Hong Kong KAIFANG [OPEN] in Chinese  
No 39, Mar 90 pp 79-80

[Article by Cai Yongmei (5591 0737 2734): "England Publishes Work on Beijing Underground Democracy Movement"]

[Text] The first Chinese democracy movement book has been published in English rather than Chinese. This is a strange event that could only occur after the 4 June massacre. Although it is published in English, when discussing Chinese affairs, Chinese people do not share Western scholars' weakness of attempting an ineffective solution, but get right to the point and hold unique opinions.

### The Mysterious Author Still Lives in Beijing

"A young person still living in Beijing evenhandedly assesses the whole story of the Tiananmen incident for the first time."

This is a comment about the publication in England of the book *The Long March to 4 June* at the end of last year. The author's name is Li Xiaojun [2621 1420 6511] and the commentator's name is E.J. Griffiths.

*The Long March to 4 June* is the first underground work smuggled out with the help of Western scholars and published abroad since the 4 June massacre. Who is the author Li Xiaojun? He is unknown to mainland and overseas literary and art circles. This is basically because there is no such person as Li Xiaojun. The publisher says that Li Xiaojun is a pseudonym because the author took an enormous risk writing the book, but the commentator and the publisher can guarantee the author's reliability.

As for the mysterious author himself, according to the book he is a midlevel cadre in an agency directly subordinate to the Beijing State Council. He can come into contact with and know about the upper levels of the CPC, but still maintains secrecy abroad about many of the inner workings. He is still living in Beijing.

From the book's in-depth knowledge and penetrating analysis of the Chinese Communist Party and recent Chinese history one can guess that author Li Xiaojun is probably a member of Zhao Ziyang's brain trust. But from the ruthless criticism of Deng Xiaoping's reform and the thorough denial of the CPC he doesn't seem to be a member of the reform faction within the CPC system. He seems more like a high-level intellectual

opposed to the system and holding different political views. But whoever the author is, this book should be read by everyone who is concerned about the future of China.

### Viewing the 4 June Incident From a Historical Perspective

Since the author is not an outsider to the CPC and mainland society, he does not share the weakness of attempting ineffective solutions that is characteristic of Western scholars when discussing Chinese affairs. Therefore he can usually get right to the point and has unique and incisive opinions.

For example, when criticizing the CPC's "four modernizations," the author points out that since China's national fate began to decline in 1840, the goal China has pursued has been how to make the country rich and build up its military power. This still has not changed. The victory of the CPC revolution and the "theory of China as the center of world revolution" that spread during Mao Zedong's era are preposterous reflections of the national self-strengthening attitude of making the country rich and building up its military power. Yet Deng Xiaoping's "four modernizations" are not far from this. The path they are taking is still the line of militarism. Thus, the goal of modernization does not take into account the happiness of the people and the concern they express for others. The West is puzzled and does not ultimately understand why the "intelligent" Deng Xiaoping could have done such an unintelligent thing as the 4 June massacre, because they have not yet seen clearly the true goal of Deng Xiaoping's "four modernizations."

In discussing the victory of communism in China, the book's author says that in the process of China's learning from the West in the modern period, many thinkers have influenced China's intellectuals. However, China's intellectuals ultimately rejected the West's most valuable and most dominant pluralistic and democratic thinking and selected instead dictatorial and closed Marxism. This is because Chinese intellectuals at the time universally were eager for quick success and instant benefit and were eager to act to change reality. The practicality in politics, economics, and military affairs that Marxism preached happened to fit well with this state of mind and the victory of the October Revolution also confirmed Marxism's feasibility.

However, the victory of communism was actually not entirely equivalent to the victory of Marxism. On the basis of much material and facts, this book proves that the communist revolution had a very strong Chinese coloring, in particular the personality characteristics of Mao Zedong. The most evident characteristic is that to achieve his own political goals, Mao did not hesitate to use the extreme behavior of any dark side of human nature. For example, the earliest was the Hunan peasant movement that Mao Zedong raised in 1927 and the most extreme was the Great Cultural Revolution, but the most

recent was the 4 June massacre. For this reason, the victory of the communist revolution is a freak of Marxism born in China.

The author's conclusion is that the appearance of the communist system in China was definitely not a historical necessity, but was a tragic divergence in China's learning from the West and in its march toward modernization.

When analyzing the Cultural Revolution, the author believes that the 10 years of catastrophe was not like a fault in Chinese history as so many people think, or a deviation from the CPC line. On the contrary, it was the necessary result of the line of terror of Mao Zedong and the CPC, and so was the 4 June massacre.

### Revealing a Rarely Seen Secret CPC Palace History

This book is very readable and its contents disclose much secret CPC palace history heretofore unknown, especially much interesting inside information on the Cultural Revolution.

For example, the "20 July incident" that occurred in Wuhan on 20 July 1968: According to official CPC reports, at that time Xie Fuzhi [6200 1381 3112] and Wang Li [3769 0500], two important members of the Central Committee's Great Cultural Revolution Group, went to Wuhan for an inspection. They were arrested by the Wuhan Military District and an organization known as "The Million Heroes." However, two days later Wang and Xie returned triumphant to the capital and received a hero's welcome. Subsequently, "The Million Heroes" were attacked as counterrevolutionaries and Chen Zaidao [7115 0375 0451], the commander of the Wuhan Military District, was recalled to Beijing and punished. Yet, the official reports are filled with misgivings and flaws, such as, after Wang and Xie were arrested, how did they escape? Why were the two men arrested?

The author of *The Long March to 4 June* says that the real story was much more serious than this official report. The "20 July" incident was basically an abortive coup. What the Wuhan Military District and "The Million Heroes" wanted to seize was not only Wang Li and Xie Fuzhi, but "the great helmsman" Mao Zedong. At the time Mao was in the Wuhan Third Garrison [san zhen 0005 6966]. He escaped because, on the morning of 20 July, he received a warning from Lin Biao and Jiang Qing that there was some danger. Since this happened suddenly, Mao Zedong fled wearing his nightshirt and slippers. It was a tight situation.

At the time, the Wuhan Third Garrison was surrounded by various military factions of the CPC; and troops that supported and opposed Mao Zedong faced off against each other. The atmosphere was very tense and could have exploded at any moment. But how was this crisis defused? How were the two CPC factions vying for power pacified? The author says that this is a riddle that is hard to understand.

Yet, not long after the event, Wang Li and two other members of the CPC Great Cultural Revolution Group fell from power and were arrested. They were accused of being "opposed to Premier Zhou," and the movement to seize "a small group in the military" suddenly stopped and turned to attack the "May 16th Detachment." The ins and outs of these historical facts are still a puzzle.

The author of the book also mentions the "13 September" incident, in which Lin Biao's plane crashed in Undurkhan, and much of the inside story between Mao and Zhou.

For China's democracy movement to develop further it must carry on a wide-ranging theoretical discussion of China's current reality and system. *The Long March to 4 June* may be an excellent attempt in this direction, but the puzzling thing is that this book is only in English translation. If it is published abroad, mainland people cannot read it. The readership of this book should be people on the Chinese mainland. Only if mainland people understand the basic nature of CPC dictatorship and are aroused with the resolution to struggle for the establishment of a democratic society can they hope that a democratic movement more extensive than Poland's will appear on the Chinese mainland.

### France Dissents From NATO Military Declaration

OW0907014990 Beijing XINHUA in English  
0038 GMT 9 Jul 90

[Text] Paris, July 8 (XINHUA)—France Sunday said that it will not stick to the military declaration made at last week's summit of the North Atlantic Treaty Organization (NATO), which says that the nuclear weapon should be the last resort of the Western alliance.

"It is in the interest of France not to adhere to this idea... Keeping its own strategy of deterrence is extremely important for the future and for the European identity of defense," said French Defense Minister Jean-Pierre Chevenement at a televised forum.

United States President George Bush proposed at the London Summit held on July 5-6 that the NATO members use nuclear arms as a last resort.

Chevenement also said that France will not withdraw its troops from Federal Germany within four or five years, "because in the coming five years, there will be a strategic vacuum (in Western Europe), which is very dangerous because the vacuum always means outside interference."

He said that France, as the second-biggest military power in Europe only next to the Soviet Union, would pursue its own strategy of deterrence, and that the withdrawal of French troops from Federal Germany also calls for the retreat of Soviet troops from Democratic Germany and a concertation with the Western allies, in particular the Federal German Government.



## EAST EUROPE

### GDR Police Demand Compensation for Price Hikes

OW2007044890 Beijing XINHUA in English  
0158 GMT 20 Jul 90

[Text] Berlin, July 19 (XINHUA)—Thousands of police today rallied before the republic's Palace of the People's Assembly here to demand government compensation for economic losses suffered during recent price hikes.

The People's Police Union wrote to Premier Lothar De Maiziere, on behalf of its 86,000 members, asking the government to immediately work out ways to ensure the income and social security of the police and gradually practice a system of professional employment.

Democratic German Vice Premier Peter-Michael Diestel, who met with the protesting police, said he accepts their demands.

However, at present the government has no money to back their demands, he added.

This is the first police demonstration in Democratic Germany, although there have been many anti-government demonstrations since De Maiziere's government was formed 100 days ago.

### Sharp Unemployment Rise Noted in Poland

OW1307092990 Beijing XINHUA in English  
0638 GMT 13 Jul 90

[Text] Warsaw, July 12 (XINHUA)—The Polish Government today declared that there were 570,000 unemployed by the end of June, or over 4.2 percent of the total national employment.

The jobless increased sharply as the Solidarity government this year started a program to transit its economy to a free-market one and accelerated the privatization process.

Official statistics show that there were 55,000 jobless people in January, more than 260,000 by the end of March and 440,000 by the end of May.

Of the 570,000 unemployed, the government said, over 270,000 are women.

Meanwhile, due to the government's anti-inflation measures and accelerated privatization, production has slowed down. In the first six months, production decreased by a monthly average of 30 percent.

It is estimated that of the total unemployed, 300,000 were sacked collectively due to the under-operation and bankruptcy of factories.

Western countries expected the unemployed figure in Poland to reach somewhere between 1 to 2 million by the end of year. The situation has caused serious social disturbance evidenced by strikes and popular disgruntlement.

## SUB-SAHARAN AFRICA

### Namibia Objects To Externally Induced Change

OW0707003190 Beijing XINHUA in English  
1510 GMT 6 Jul 90

["Namibia Welcomes Changes Ushering in Peace, Cooperation and Reconciliation"—XINHUA headline]

[Excerpt] Addis Ababa, July 6 (XINHUA)—Namibian Foreign Minister Theo-Ben Gurirab said here today that his government welcomes the changes ushering in peace, cooperation and reconciliation among the nations of the world.

In his reply to a question posed by XINHUA, Mr. Gurirab stressed that "change is the only permanent thing in the universe" and therefore changes that have taken place for different reasons in different countries are obviously inevitable.

"But we regret those changes that are induced either by internal and external forces that are likely to lead to further destabilization of the forces in the world," he said. [passage omitted]

**'Wild Youth' Said Needed for Future**

90CM0225A Beijing DAXUESHENG [UNIVERSITY STUDENT] in Chinese No 5, 10 May 90 pp 10-11

[Article by Fang Ping (2455 1627) in the "University Student Forum"; Shan Shi (3790 2514), responsible editor: "Wild Youth and Commonplace Youth"]

[Text] I recently heard of a new trend in the filling out of forms by certain university graduates volunteering for assignments: In the colleges, universities, and schools of Beijing, Tianjin, and Shanghai, there is a move toward choosing the ministries, commissions, and offices of the State Council, but it is uneven, and there is also a move toward large publishing houses; in the provinces and autonomous regions they aim at the party committee and the government, and, at the minimum, at the local medium-sized cities.

Therefore, public opinion, in succession and complacently, says that contemporary university students are too wild. Really? This writer, on the contrary, thinks that this is a case of "doing something unconventional," and says: No, this is just commonplace. To want to stay in large cities and sit in large organizations, "tolling the bell and eating steamed buns"—isn't this commonplace!

Wildness is particularly valuable in youth. On this point this writer willingly defies world opinion, and quickly cries out: University students, we are wild! We are wild youth.

There were wild youth in ancient times, or so says tradition, which should not be depreciated. For example: wild youth. The most ancient wild youth who can be verified by records was the esteemed Mr. Kong Qiu [Confucius]—the founding father of the scholars in institutions of higher learning. He was a funeral drummer. He put down the nine classes of literature as trifles, and did not live diligently and work in peace and content. He persisted in going to all quarters to sell his ideas, wrote books and set themes, started battles over learning with feudal officials, initiated the old-style private schools, and, by educating the common people, broke away from the idea that learning was the learning of antiquity by nobles. His school had 3,000 disciples and 72 worthies; when his people developed they became "masters." A master was equivalent to a contemporary academician. If there are teachers there must be pupils. Mencius, who was audacious in the extreme and dared to say that "it is man's nature to enjoy food and sex" and "sex is a natural instinct," went around China when he was young selling his ideas. He not only gave lessons in the hall to King Xuan of Qi on the great cause of unity, but also was so wild as to not accept the great king's gifts. When he was young, Xiang Yu, "whose strength pulled up mountains and whose breath covered the world," saw the Emperor of Qin passing in procession and said, "He can be replaced." The intimidating Xiang Liang, hurriedly covering his mouth, bluffed, "No wild talk, destroy the nine degrees of kindred!" Ban Chao when young had high ambitions. He once threw down his pen and sighed, "A

great man without talent and ambition is like one whose efforts are paid for with a mustard seed." Zhang Qian gained merit in strange regions and obtained the title of marquis. How can I work for a long time between pen and inkstone!" Zhuge Liang compared himself to Guan Zhong and Yue Yi. At that time Liu Bei had not yet "made three calls at the thatched cottage"—repeatedly requesting Zhuge Liang to take up a responsible post—and the Enlightened One—Zhuge Liang—was an elegant young man living in a remote village near Nanyang.

Wildness has its sources and also its streams. The wild youth of the Tang and Song dynasties were as bright as the stars. The young Li Bo "who took responsibility for the world's affairs" "although less than seven Chinese feet tall had the breadth of mind of 10,000 men." Li He, the Ghost-Immortal of Poetry, went to the capital when he was seven years old and paid visits to Han Yu and other famous writers. The young Li He was wild. He scoffed at the young Yuan Zhen for attacking those who were familiar with the classics, and refused to see him at the outer gate. When 16, Li Shangyun wrote a book "to bring classical prose to the public." When 17, he boasted, "I do not envy King Xiang for wearing a sword." The three Tang poets surnamed Li were wild, and the Song poets Su and Xing were wild. The young Xing cast aside illness, assembled 2,000 men, and joined Geng Jing's Righteous Army to resist the Southern Bandit Gold Soldiers. Su Shi, an innovator in poetry during the Song dynasty, when almost 40 years old, was still wild. In the poem *Jiang Cheng Zi* he wrote, "An old fellow like me was a little wild in his youth. On the left I pulled the yellow, and on the right I held up the green. I wore a brocaded dress and a marten coat. With 1,000 cavalymen I sped over level and hilly land." "I will exchange the engraved bow like the full moon, look to the northwest, and shoot an arrow at the Dog Star."

In modern China alarms along the border became more urgent daily, suffering became more grievous daily, and wild youth daily became more fervent. When 31 years old, Hong Xiuchuan founded the God-Worshipping Religion. He proclaimed, "I hold the power in heaven and earth to kill and cut down, and I will wipe out the unorthodox and retain the orthodox in order to resolve the people's anxieties." A certain number-one scholar [the title conferred on the candidate who came first in the higher imperial examination] on his test paper wrote this sentence: "If the ruler is worried the minister is disgraced; if the ruler is disgraced the minister is dead." A mere student was so wild as to want to control things that would worry or disgrace the emperor. The Xiangjiang School in Hunan Province openly encouraged wild youth, and an anithetical couplet in the Aiwan Pavilion of the Yuelu Academy reads: The cloudy mountains on all four sides meet our eyes; the sorrow and the joy of 10,000 families are in our hearts. Around the time of the Sino-Japanese War of 1894-95 China was a great power and a large number of wild youth appeared. When he was 28 years old, Sun Yat-sen founded the Xing Zhong Hui and, when 29, he organized the first uprising

in Guangzhou. When he was 24, Ling Qichao was the chief commentator for the SHIWU BAO, and he advocated political reform. When he was 29, Chen Tianhua wrote *Jing Shi Zhong* and *Meng Hui Tou*. When he was 19, Zou Rong wrote *Revolutionary Army*, in which he roundly cursed Guang Xu: "This buffoon 'is unable to tell beans from wheat'—has no knowledge of practical matters," which was the first clap of spring thunder in this century in the revolution against the autocratic emperor. Sun Zhongshan engaged in polemics with Kang Youwei and Liang Qichao. When he was 20, Lu Xun wrote articles cheering on Sun. In 1904, when the Hua Xing Hui was founded, Huang Xing was 30 and Song Jiaoren 22. Wang Jingwei, 28, assassinated the prince regent. Cai E, 29, started a revolt in Kunming, and at 34 commanded a division to suppress Yuan [Shikai]. Li Dazhao, 30, founded the Young China Society. Zhou Enlai, 20 years old when he crossed the sea to Japan, put pen to paper and expressed his will: "Facing a rampart for 10 years, I planned to break through it. It is difficult to reward as heroic the act of jumping into the sea. Jumping into the sea means committing suicide. I will prepare with my body of flesh and blood to awake my countrymen, and open the curtain on the rise of our nation." The young Mao Zedong, taking up Gu Yanwu's idea that "every man has a share of responsibility for the fate of his country," spurred himself on. He held in esteem Napoleon, Washington, Catherine the Great, Peter the Great, Wellington, Gladstone, Rousseau, Montesquieu, Lincoln, and other "world heroes," and thought that "China must also have figures of this kind." He initiated the New People Society, in which was assembled a number of youths for the study of how to transform China and the world. Years later, recalling those happy times, he wrote: "I once went roaming with a hundred companions. I have deep recollections of the past eventful years. My schoolmates were young and in the prime of life. They had a scholarly temperament and directed affairs in a lordly manner. Pointing the direction to state power and encouraging writing, we worked with countless households in those years of dung and dirt."

From Master Kong [Confucius] to Mao Zedong, a list of several "household treasures" has best publicized the quintessence of Chinese culture. There were also wild youth overseas, and they also flourished. If wild youth did not leave China by ship, they came from foreign lands by ship.

Marco Polo, when 18 years old, accompanied his father on the Silk Road to explore the Orient. When he arrived at the metropolis of the Yuan dynasty, he was only 22. At the age of 17 Galileo made an experiment on free-falling bodies at the Leaning Tower of Pisa, and in the end he discovered the law of falling bodies. At the age of 26 Peter the Great went on tour disguised as a corporal, led an ambassadorial delegation to inspect Western Europe, and sought a way to make Russia rich and strong. At the age of 26 Goethe wrote *The Suffering of Young Werther* and *Prometheus*, becoming a world-renowned and

immortal author. At 22 Gogol published the first collection of short stories, and at 25 he was a professional writer. At 26 Lincoln was a member of a state legislature, and at 30 he became the leader of the Whig Party and led the struggle against slavery. "The private who does not want to be a marshal is not a good soldier." This famous remark was made by Napoleon, who at the age of 27 was a young general, at 28 held all of Europe in awe, and at 32 founded the First French Empire. At the age of 25 Marx took charge of the (MAIYIN BAO), and at 30 with Engels he published *The Communist Manifesto*. At the age of 19 Tolstoy organized the "South Russian Workers League." When in middle school Lenin maintained that nationalism would not work in Russia, and when he was 20 he set up Russia's first Marxist group. People called the young Stalin the little emperor. In 1915 Mr. Armand Hammer, 18, won the gold prize in a high school graduating class speech competition with a speech entitled "Mankind's Last Battle." At the age of 23, disregarding the great powers' hostility toward the Soviet Union, he came to Moscow. He became an important foreign patron of Lenin's New Economic Policy, and he was the first American to lease an enterprise for doing business in the Soviet Union. At the age of 10 De Gaulle formed "his own view of France." At 13 he resolved to join the army, and when in middle school he styled himself an invincible general. Martin Luther King at the age of 25 joined the black people's movement, and he became the leader of the nonviolent human rights movement that was the focus of world attention. Iacocca, who for a time was popular on Chinese campuses, said these brave words at his college graduation: "I want to become a millionaire."

Looked at as a whole, the experiences in life of the wild youth in ancient and modern times, in China and abroad, were diverse. There were statesmen, economists, strategists, scientists, sociologists, educators, entrepreneurs, and explorers; there were also emperors, presidents, sages, and men of virtue or distinguished personages out of office; and there were also feudalists, capitalists, and Marxist-Leninists—many and diverse types. Wild youth does not mean people; it is a term for a phenomenon and a disposition. It can be boiled down to two points:

First, taking a broad view of the history of mankind's development, wild youth are a social and historical phenomenon, which has lasted for a long time without waning, and "the rear wave has pushed forward the front wave." As a historical phenomenon in the long process of history, it is both rational and inevitable. If you don't want it, it will still roll on with full vigor; if you don't want it, the "ashes will fly and the smoke will die out." Wild youth is where the fine blood of a nation is, where the vitality of a nation is; when a nation rises up to fight, the phenomenon of wild youth is especially striking and especially distinct. Conversely, if it is a nation in which the courage and uprightness of students are stifled, in which there are commonplace mediocrities, in which there are prematurely aged men without aspirations, in

which there are no wild youth, in which the "Yang principle is completely scattered," and in which "10,000 horses stand mute" and there is absolute silence, then there is truly no hope and there is truly cause to mourn. Therefore, for a nation to soar high it is best to be tolerant of wild youth, hating their absence and loving their presence.

Second, looking at life's journey, we see that wild youth is a characteristic phenomenon of the youthful period, and in general it occurs between the ages of 12 and 30. Viewed from the angle of the psychology of youth, it belongs to the years when one first looks at the world and is very unclear about it, but is determined to make progress. It is easy for a youth to bring tomorrow's good prospects to today, and it is easy for a youth, with regard to all kinds of malpractices, to joyfully line up axes and chop away the past. When eager and fervent, a youth has strange ideas, and "raising one's head and throwing out one's feet" leads unavoidably to a wild attitude without regard for the fact that one is childish, simple, and naive. Actually, in their youth middle-aged and old people were not necessarily not wild. From the righteous ardor to rush to the first line of resisting Japan to contributing one's youth to the three red banners [the general line for socialist construction, the Great Leap Forward, and the people's commune] to the vast world with large scope for liberating two-thirds of its people who are suffering—all this finds sustenance in wild youth. Each generation is different, and each generation has different ideas about right and wrong. It is characteristic of wild youth in their youthful period to cause a clash of generations. Youth are now wild precisely because they are young. Wild children and wild old people are rare; most of the wild ones are youths. Are people of the thirties and forties still wild today? Are the people of the fifties, sixties, and seventies still wild today? They are not—basically they are not. They entered society and trekked through life. Therefore, they are mature, and therefore they are experienced and worldly wise, enough to shoulder the main responsibilities.

What is terrible and regrettable is not the wildness of youth, but the commonplace nature of youth. There are some people of the same age who, because of censure and misunderstanding, worry and pessimism, go on to become passive and then on to another end—they become commonplace.

What is called commonplace means that, among some of our friends, there are those who think that, no matter whether they struggle for four years or muddle along for four years, getting a diploma means that after suffering comes happiness, and that they have obtained proof of entry into the ranks of "people who are above other people." From this it follows that they are unwilling to take risks, no longer want to "sleep on brushwood and taste gall"—undergo self-imposed hardships so as to strengthen resolve to wipe out a national humiliation—and they start from zero. They dream of sitting in an easy

chair made by others, and they continue to struggle or muddle along. If they don't get this easy chair, they are full of grievances.

It should be borne in mind that a valiant general must be drawn from the ranks, and that a prime minister [of ancient China] must rise from the depths of the Zhou [an administrative division in ancient China]. If one doesn't climb step by step, how can one "ascend into the sky and throw a rope around the moon"? King Zhuang of Chu said, "I don't fly for three years, and then I soar high for one year; I don't make a sound for three years, and then I astonish people for one year." Literally, three years, but actually it takes five years, or six or seven years, to complete one's course of studies and master one's profession. General De Gaulle quietly spent 12 years as a captain, comparable to 12 years of "going down to the company and being a soldier." He also struggled quietly for several dozen years to become famous in France and the great world. Marx's shoes left footprints on the passages of the library of the British Museum before he finished his great work *Das Kapital*. Step by step Marco Polo traversed the winding, bumpy Silk Road for countless miles before he attained his long-cherished wish. The American railroad magnate Gould started out as a conductor. Sun Zhongshan gave his all for the national revolution for 40 years. In Guangzhou he was in danger of being murdered, in London he fell into the clutches of the enemy. He was thrown in jail many times, but he never flinched. Before dying he said, "The revolution is not yet a success, and the comrades must still work hard." Nelson Mandela spent more than 20 years behind prison bars without the edge being taken off of his spirit, and today he still campaigns for the cause of racial equality. Sima Qian suffered the punishment of castration. He was disgraced before his ancestors and his case implicated his descendants. With such truly galling shame and humiliation, he still vowed, "I will study carefully the relations between Heaven and Man, and, through delving into the changes in ancient and modern times, become an authority in my field." For a number of years he applied all his energy and effort, with one knife after another carving the wooden chips and bamboo chips on which he wrote, to complete his eternally great work *Historical Records*. Under restraint King Wen developed the *Book of Changes*, and Zhongni [Confucius] in adversity wrote the *Spring and Autumn Annals*. Qu Yuan was exiled, but he still composed the poem *Li Sao* [On Encountering Sorrow]. Zuo Qiu went blind, but he still made great contributions to the national language. Sunzi suffered the punishment of having his kneecaps chopped off, but he wrote *The Art of War*. Not going around the State of Shu, he went into the State of Lu, where he transmitted his ideas. Han Fei was imprisoned in the State of Qin. Bewailing his lot, he vented his indignation in isolation. Generally speaking, the firm resolution of sages and men of worth are found in the Three Hundred Poems.

Wild youth can get somewhere. It is better to talk of their setbacks and insults rather than their opportunities in

unstable situations, because tribulations temper and train them. There is certainly no shortcut for commonplace youth to obtain skills. Passing through tribulations and infatuations without changing, the lofty ideals of youth are not words of sadness. When we finish our schoolwork we pledge to start at the lowest rung, and when we start as a "captain" or "conductor" we will truly be able to display the distinctive characteristics of wild youth.

Commonplace youth do not belong to a generation that strides across centuries.

The times need wild youth. We are wild youth.

History will certainly prove that the world belongs to us. The future of China belongs to us.

## NATIONAL AFFAIRS, POLICY

### Direction of Foreign Trade Reform in Near Future

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[Article by Li Yushi (2621 7183 2514): "The Direction of Foreign Trade Reform in the Near Future"]

#### [Text] I. A Brief Retrospective of Foreign Trade Reform

Foreign trade reform, which began in 1979 and continues today after ten years, has played a huge role in spurring the growth of China's foreign trade. From 1979 to 1989, China's total foreign trade volume increased by a factor of 2.78, from \$29.333 billion to \$81.555 billion. Especially remarkable is the fact that as the rate of growth in the world's economy and trade slowed in the 1980's and protectionism reappeared on the international scene, China's exports still grew rapidly, increasing at an annual rate of 12.3 percent (from \$13.66 billion to \$43.28 billion). Not only did it outstrip the growth rate of China's national economy during the same period, it outstripped export growth rates in such large countries as the United States, the Soviet Union, India, and Brazil.

However, it must be stated bluntly that even as China's foreign trade posted continued growth, the conflict between the nation's continually growing demand for foreign exchange and the state's capacity to provide foreign trade price differential compensation, i.e.—subsidies given by the state fiscal system to export goods to compensate for differentials between domestic and foreign prices which arise due to China's irrational price structure—has become a primary factor limiting the development of foreign trade, and the growth of exports in particular. The state is faced with a dilemma: Does it want foreign exchange or renminbi? Except for the earliest foreign trade reform, which were aimed at decentralizing operational authority, the objective of virtually every major program, policy, measure, and plan, which the state has adopted since the last half of 1983 in the area of foreign trade reform, has been to resolve this dilemma. Although it is true that the foreign trade reform program, in which implementation was begun in 1988 and whose main content was separate contracting for every local area was, in part, an attempt to bring foreign trade into sync with the national economy, especially the fiscal system in which local governments contract with the central government to hand over a certain quota of funds to the latter party, its fundamental objective was still to resolve the dilemma between foreign exchange and renminbi. It attempted, first of all, to deal with the fact that the central government no longer had the fiscal resources to continue providing foreign trade price differential compensation.

The practice of stripping off foreign trade contracts to local areas in the last two years has indeed stimulated the enthusiasm of people at the local level to develop foreign trade, alleviated the conflict between the high price of

generating foreign exchange and the low price of using foreign exchange, and stimulated export growth. At the same time, it brought the amount of central government fiscal resources used for foreign trade price differential compensation under a degree of control. However, the state has paid an enormous price to achieve this.

Regions everywhere have resorted to blockading goods sources and cutting off their markets in order to fulfill planned export quotas and to earn the foreign exchange retentions that accrue from trade in excess of quotas. This has severed the rational links that had formed as a result of the development of the commodity economy, and impeded the formation of a unified domestic market. Short-term behavior on the part of local governments and enterprises has grown worse. The industrial structures of different localities throughout China have begun to converge, making it more difficult to take advantage of relative strengths. The export mix has grown worse, which has caused a decline in the benefits which accrue to the state from its macroeconomic allocation of resources. The state's ability to perform its role of macroeconomic management as well as the role of regulation and control has been weakened. Engaging in joint operations and unifying foreign trade policies has to a certain extent become a mere formality, exacerbating the tendency toward domestic purchasing wars that push up prices at home, and price cutting when it comes to exports in order to increase sales. The unconcentrated use of foreign exchange, and its use by local governments and enterprises as a method of optimizing their profit-loss situation, has made it difficult to control redundant and blind imports of durable consumer goods. This has reduced the economic benefits which accrue from the use of scarce foreign exchange. It has also struck a blow against efforts to carry out the state's macroeconomic industrial policy. It has intensified the unequal competition going on between different regions and enterprises over costs, foreign exchange retention, and foreign trade price differential compensation. It has intensified blind competition between different regions and enterprises. Interference by local governments in enterprise affairs has grown worse, thus creating barriers against further deepening of reforms of enterprise operational mechanisms. The quality of export products has fallen precipitously, and contracts are being fulfilled much less frequently, which has seriously damaged China's reputation abroad. Lastly, and most importantly, even though the accounts show that total fiscal resources used by the central government for foreign trade price differential compensation have not exceeded planning targets, when we calculate actual expenditures, it is apparent that the growth of foreign trade price differential compensation has gone out of control. Its growth rate has at least matched that of total exports. This is because no matter whether this compensation comes from the fiscal resources of the central government or those at the local level; no matter whether it is dispensed by lowering the exchange rate for the renminbi or by compensating foreign exchange usage by readjusting the market, the result is the same—the state has

to use more fiscal resources to support exports. This means that even though the program of separate contracting of foreign trade by every local area has alleviated the burden on central government fiscal resources to a certain extent, the problem has not been fundamentally resolved. After changes to price factors on the domestic and international markets, and a series of other internal and external changes, the dilemma of whether the state "wants foreign exchange or renminbi" has reemerged in a new form. Thus, the attempt to resolve the central government's fiscal problems and spur some enterprises to take responsibility for their own profits and losses, which was the original intent of this reform, has in large part not been achieved.

From an overall standpoint, the ten years of foreign trade reform have done much to spur enthusiasm for developing foreign trade, to deepen and broaden China's opening to the outside world, to get China's enterprises to take part in the international division of labor and international market competition, and to enable China to switch from a highly centralized planned economic model to a planned commodity economy. However, a series of new conflicts and problems which has been engendered during the course of reform cannot be ignored, either. Whether, in the course of future foreign trade reform, we can maintain their positive contribution (stimulating foreign trade) while lessening or avoiding their negative impact upon macroeconomic functions is a topic urgently in need of study. In particular, as the current three-year contracts under the separate contracting for every local area program are approaching their expiration dates, the most pressing issues requiring study are how to formulate a program for foreign trade reform for next year and for the period covered by the Eighth 5-Year Plan.

## II. Conceptual Framework For Foreign Trade Reform in the Near Future

As we study and formulate a program for foreign trade reform in the near future, we should first keep in mind the following basic points:

First, the foreign trade system and the development of foreign trade are an indispensable part of the macroeconomic structure and its operational system, and they are also subsystems at the microeconomic level. This determines that, in the aggregate, foreign trade reform must stay in step with other economic reforms, and must be coordinated with them to a large degree.

Second, foreign trade not only impinges upon domestic production, exchange, allocation, and consumption; more importantly, it must deal with a fiercely competitive world market where methods of exchange and commodity coverage are developing and changing at a rapid pace. Therefore, foreign trade reform must meet objective requirements posed by the development of international trade.

Third, under China's new situation, in which "improvement, rectification, and deepening of reform" are being

implemented, foreign trade reform must, in the aggregate, stay in step with this new situation, and in their concrete implementation they must be appropriate for the development of foreign trade.

Fourth, they must control foreign trade price differential compensation for export products, keeping them within limits that state fiscal resources can handle. They must facilitate steady growth of foreign trade (particularly exports) at a rate slightly above the growth rate of the national economy.

Fifth, foreign trade reform must assure reasonable growth of the central government's foreign exchange income in order to guarantee coordinated macroeconomic development, and it must also stimulate the enthusiasm of every local government, government department, and enterprise for developing foreign trade.

Sixth, the program for foreign trade reform in the near future should, to a large extent, be in line with the long-term direction of foreign trade reform and development. At the very least, it cannot throw up barriers against further deepening of reform.

For these six basic reasons, I believe that the overall conceptual framework of foreign trade reform should include a program which takes all factors into consideration. When it comes to putting together concrete programs, and formulating and implementing policies, thought must be given to their workability, the degree to which they dovetail with the current system and the relative stability and continuity of policy.

The original motive of China's economic reforms is to find the proper method for allocating resources, thereby rapidly achieving modernization with the smallest consumption of resources possible. The history of economic development in various countries shows that the most basic question which determines the economic development or growth of a country is how to allocate and use resources in an efficient and rational manner. There are two main ways of doing this: The first one relies primarily upon the market mechanism to allocate resources. It uses price signals from the market to guide the flow of resources. The second one relies primarily upon state planning to achieve a balanced allocation of resources among the various sectors in the national economy. As for the relative advantages and disadvantages of these two methods of allocating resources, this is a very controversial issue with which I do not intend to delve into here. It should be pointed out, though, that the planned commodity economy being developed in China is an attempt to organically combine planned resource allocation with market allocation of resources, thereby achieving an optimum allocation of resources which is more rational and efficient. I believe this is a strategic decision very much in line with China's actual conditions, and it is the direction of China's economic reforms.

Foreign trade plays a very important role in the rational allocation of resources. A country can overcome limitations imposed by its own lack of resources through foreign trade. When resources are exchanged effectively on the vast world market, resources utilization is optimized. Furthermore, international experience shows that as a country becomes open more to the outside world and participates to a greater degree in the international division of labor, foreign trade plays a greater and greater role in optimizing the allocation of its resources.

The direction of China's economic reforms has determined that foreign trade reform must adhere to a program which combines planning with the market regulatory effect. It has also determined that foreign trade must first of all meet the requirement for an optimum allocation of resources within the national economy.

As for the question of why we continue to emphasize the role of the planning mechanism in the foreign trade reform, this is not only due to the fact that we must continue to uphold the role of the planning mechanism as we reform China's national economy; it is also a necessary choice in light of actual conditions in China. The current condition of China's economy is this: productive forces are very underdeveloped; labor productivity is low; resources are in short supply; there are sharply uneven levels of development between different sectors, within sectors, and between different regions; and the commodity economy and the market mechanism are very undeveloped. Several conflicts determine that the development of China's foreign trade and the design of its foreign trade structure could not depend solely upon the market mechanism. These conflicts include the troubled operations of the national economy versus the development of foreign trade, which is racing along at a much faster pace; the uneven development of foreign trade versus the coordinated development of the national economy; and the undeveloped state of the domestic commodity economy and the market mechanism versus the international market mechanism. The planning mechanism will continue to play an important role.

In the first half of the 1990's, China will face a world market with slow growth rates in the areas of economy and trade. Within international trade, the trend toward protectionism and the formation of monopolies and regional economic groupings constitute an external environment that is adverse to China's economic development. In an international market where competition grows more and more intense and monopolistic tendencies grow more and more intense, all countries (developed and developing) are using the strength of either state or private monopolies over one or several types of products to open up markets for products from their own countries, or to hold on to current market shares. Furthermore, the development of modern international trade has shown that nonprice factors of competition such as quality, style, packaging, appearance, performance, timeliness of delivery, and after-service sales now play an increasingly important role in international

exchange, while the primary advantage that China has long relied upon to expand exports—low price—has less and less effect. Currently, most of China's export products are not competitive in terms of quality, cost, and after-sales service. In today's international environment, if China's exports are to continue growing steadily, they need to receive support from the state in some form of monopoly. In concrete, we must resolutely engage in joint operations and unify foreign trade policies. When I say "engage in joint operations and unify foreign trade policies," I am not advocating the operation of a monopoly by a single foreign trade department. I do advocate that, under unified policy, all local governments, government departments, and enterprises engaged in foreign trade join together to coordinate their dealings with foreigners in the following areas: production, marketing, pricing, markets, clients, and information. The head offices of companies specializing in foreign trade, large scale industrial and trading corporations, large scale group enterprises which export mainly leading products will be the types of monopolies that China uses to deal with international monopolistic competition. Not only is this in line with the requirements posed by the development of international trade, it also meets the current needs of China in developing foreign trade.

The program of improvement and rectification currently being implemented by China is being carried out within the context of opening up to the outside world. On the one hand, opening up to the outside world has created a margin of operating room for improvement and rectification. On the other hand, if policies connected with opening up are carried out improperly, it could cause many problems for the program of improvement and rectification. Particularly in a situation in which macroeconomic control of foreign trade has been lost, it will have a very adverse impact upon macroeconomic equilibrium and stability as well as the effectiveness of improvement and rectification whether an irrationally high quantity of domestic resources are exported or an irrationally high quantity of resources are imported. The loss of macroeconomic control over foreign trade in recent years has affected the implementation of improvement and rectification measures, and continues to do so. For this reason, strengthening macroeconomic management of foreign trade is an indispensable part of the effort to assure stable development of the national economy and effective implementation of improvement and rectification. When I refer to strengthening macroeconomic management of foreign trade, I am not calling for a return to the old, highly centralized system of direct administrative management; rather, I am calling for a system which makes appropriate use of administrative management at the same time as it employs such economic levers as prices, taxes, exchange rates, and interest rates to establish and make sound a system of macroeconomic control and regulation of foreign trade which utilizes both administrative measures and economic levers, and which gradually moves toward primary reliance upon the latter.



Another requirement of improvement and rectification is that the relatively effective programs, policies, and methods used in past reforms remain fundamentally unchanged. Even though the enterprise contracting system and the system of contracting by industry may have some shortcomings, from an overall standpoint they are in line with actual conditions in China, so we must continue to uphold and perfect them. For this reason, we should also continue to uphold and implement the contract management responsibility method as we proceed forward with foreign trade reform. In contrast, although the foreign trade contracting plan now in effect does have certain positive aspects, from an overall standpoint it has had an excessively adverse macroeconomic impact. Furthermore, countries throughout the world formulate export strategy according to products or industries and have adopted corresponding policies and measures, and these methods have been relatively effective. I believe that what we must do now is improve macroeconomic management of foreign trade, and we must also reform the current foreign trade system (which is based primarily on local contracting) as we continue to carry out the contracting system. After arriving at a rational categorization of products, the reforms should take contracting by industry as its primary form. It should bring together all the separate localities which have cut themselves off from each other. The central and local governments, industry and foreign trade, and administrative agencies and enterprises should carry out two-way contracting.

As for why China's foreign trade, and especially exports, have caused losses is a matter of endless controversy within academic circles. Different understandings of this issue have led policymakers to different decisions. I do not deny that irrational prices, taxes, and exchange rates have been part of the cause of the losses, and that this has necessitated price differential compensation or cost compensation for export products. However, I firmly believe that the fundamental cause of the losses lies in the production sector, and that the circulation sector is only a secondary source. The losses are a necessary result of low labor productivity in China. People have always paid attention only to China's low wage levels while overlooking the decisive factor of low labor productivity. Productivity of labor in foreign trade is a comprehensive index. Product quality, performance, packaging, appearance, promptness of delivery, and after-sales service all reflect labor productivity for foreign trade products. If you thought it possible to reverse the losses simply by making prices, taxes, and exchange rates more reasonable, then it would be impossible to understand why U.S. automobiles do not outcompete those from Japan now that wage levels in Japan have caught up with and even surpassed wage levels in the United States. Furthermore, international market prices themselves are somewhat irrational due to the fact that labor, capital, and commodities do not circulate freely in the world economy, and to the existence of exchange of unequal value in international trade. In recent years, China has taken positive measures with respect to prices and other things

on several occasions (in particular, China has lowered the exchange rate for the renminbi) in order to reverse losses in foreign trade, but the results have generally been less than ideal. The reasons are simple: One is that labor productivity rates for foreign trade products have not been raised to a level that would allow for exchange of equal value in the midst of international competition. A second reason is that trade is expanding even while shortages plague China's economy, which must inevitably result in higher prices for export products. A third reason is that although lowering the exchange rate spurs exports of accumulated inventories, the great majority of slow-selling inventories in China are not suitable for export. For these reasons, I believe it is inevitable that China will provide a certain amount of cost compensation for its exports for a time, but the compensation will be given primarily to the enterprises which produce export products. The compensation will be for definite periods and quantities, and enterprises will contract with the state so that China's labor productivity can rise as quickly as possible, stable export growth can be maintained, and China's export products can be truly exchanged at equal value on the world market. In order for China to carry out improvement and rectification, maintain its ability to exercise macroeconomic regulation and control, and repay its foreign debt, it is an objective requirement that China assure rational growth of the central government's foreign exchange income. The question of whether it would be better in China for the central government to make concentrated use of foreign exchange, or for these funds to be used in lesser concentrations at the local level, is another source of endless controversy. From the standpoint of theory, in a country like China, where foreign exchange and resources are in short supply and economic development is still in the catch-up stage, concentrated and unified utilization of foreign exchange should facilitate coordinated macroeconomic planning and maintenance of overall equilibrium, and the economic returns from the use of scarce foreign exchange should therefore be somewhat greater. From the standpoint of historical experience, a low level of expertise in planning and management and the high price of generating foreign exchange [concurrent with] the low price of using it have led to low returns from and even wasting of foreign exchange. In recent years, the use of small amounts of foreign exchange at the local level has increased. This has had the positive effect of increasing exports and encouraging people to pay close attention to getting the greatest possible return for their foreign exchange. It has also had the negative effect of encouraging blind and redundant imports. This makes it apparent that both concentrated and dispersed utilization of foreign exchange have advantages and disadvantages. It is difficult to come to a clear conclusion. I believe that the most appropriate thing right now would be to combine concentrated use of foreign exchange by the central government with dispersed use by local governments, government departments, and enterprises, and we should assure primary reliance on concentrated use of foreign exchange by the central government. In order to achieve this, we should

implement a relatively thorough reform of the current foreign exchange allocation system. We should abandon the current method of determining foreign exchange retention ratios on a regional basis, and determine these ratios according to industry. We must take the interests of the central government, local governments, government departments, and enterprises into account.

The long-term direction of foreign trade reform is the same as that of the overall reforms of the national economy—to develop a planned commodity economy. With regard to the foreign trade system, the ultimate goal is to enable enterprises to operate in an autonomous and open manner within the context of taking responsibility for their own profits and losses. The direction of foreign trade development also involves combining industry and trade and implementing a trade agency system. Insisting on engaging in joint operations and unifying foreign trade policy is a prerequisite for carrying out foreign trade reform. For this reason, plans for foreign trade reform in the near future should spur China's foreign trade system to make a gradual transition to a new type of system which allows enterprises to take responsibility for their own profits and losses and permits them operational autonomy. If that cannot be achieved, plans for foreign trade reform should at least create conditions which would make it easier to carry out the transition just described. Such plans should not erect more barriers to such a transition. Under the current system of foreign trade contracting, the contracting entities or contracting persons are the various levels of local government, and they take over functions which should have belonged to enterprises. The inevitable result has been irregular behavior on the government's part. It steps up its interference in enterprise affairs, thereby distorting enterprise behavior. If we were to switch from local contracting to contracting by industry, there would still be a problem of responsible government departments imposing administrative interference upon enterprises, but the results of this interference would be somewhat different. Interference in the former instance generally led to a situation in which enterprise behavior ran counter to the requirements of macroeconomic allocation of resources by the state and the needs of enterprise policy, while interference in the latter circumstances will at least render the behavior of enterprises within a given industry amenable to macroeconomic regulation, control, and oversight by the state. Such behavior would not run counter to the demands of macroeconomic development. Furthermore, it would be easier to make a transition from contracting by industry to enterprises which take responsibility for their own profits and losses and enjoy operational autonomy, than it would be to make the same transition from local contracting, since the ability of various industries to absorb unfair competitive factors is relatively strong, and there is more operating margin for orchestrating coordinated and unified action.

To sum up what has been said so far, the overall conceptual framework of plans for foreign trade reform in the near future can be broken down as follows: It will

establish a system in which the goal of optimizing resource allocation. The planning mechanism will continue to play an important role. Contracting by industry will be the primary form, and various localities which have cut themselves off from each other will be brought together. They will spur the development and growth of group enterprises. They will take the interests of the central government, local governments, government departments, and enterprises into account.

### III. Prerequisites for Implementing Contracting by Industry in Foreign Trade

In order to implement a foreign trade contract management responsibility system based primarily on contracting by industry, which brings together localities that had cut themselves off from each other, the first thing we must do is to determine a rational form for the division of operational labor on the basis of product categories, thereby providing criteria upon which to base implementation of contracting by industry.

In general, China's export products can be categorized as either primary products or manufactured products. Because the characteristics and principles of production and marketing are different in these two categories, the division of labor in operations will necessarily take different forms. Overall, with primary products the necessity and feasibility of concentrated management is somewhat greater. With finished manufactured products, the preferability of concentrated or dispersed management must be decided on the merits of each product.

For some primary products (such as farm, sideline, local, and specialty products, grains, edible oils, and handicrafts), we can continue to use the traditional foreign trade purchasing system because their production is dispersed, production technology and technical specification are simple, export markets and prices are relatively stable, and after-sales service is generally not required. In this system, local governments and production departments supply the goods, and foreign trade departments purchase and export them. Contracting by industry of these types of products should be carried out by the pre-existing head offices of corporations that specialize in foreign trade with the help of their subordinate systems of provincial and municipal companies. They should combine concentrated and dispersed management, and take the former as the principal form.

Primary products which are bulk resources (mainly mining and extraction products) can generally be separated into the following two categories: One is fuels, such as coal and petroleum. The other is raw materials (mostly nonferrous and ferrous metals). Production of products in the first category is relatively concentrated, as well as capital- and technology-intensive. Market prices are unified and stable, and the need for after-sales service is not great. Contracting should be carried out by the responsible department's industrial trading corporation in accordance with the system currently in place in each industry. Management should be concentrated. As

for raw materials, China produces and exports relatively large quantities of such ferrous metals as tin, sodium, molybdenum, titanium, magnesium, and tungsten, and such nonferrous metals as barite, marble, and fluorite. For these products as well, the responsible department's industrial trading system should carry out contracting by industry and should implement relatively concentrated management. For other mining products produced in lesser quantities, corporations that specialize in foreign trade could either serve as export agents for the producer enterprises or purchase and export their products. Foreign trade enterprises and producer enterprises could participate in joint contracting combining concentrated and dispersed management.

It is much more difficult and complex to categorize and determine the proper division of labor in operations in the case of manufactured goods, which number in the tens of thousands, than to do the same thing for primary products. I only intend here to raise the principles by which various contracting systems should be categorized.

For capital- and technology-intensive products such as steel, ships, chemicals, automobiles, machinery, electronics, and precision instruments, production is relatively concentrated, production processes and technologies are relatively complex, and technical specifications are relatively exacting. Furthermore, they generally require good, timely after-sales service, and elasticity of price competition is relatively great. They should take the responsible department's industrial trade corporation as the principal organ as they carry out contracting by industry, and concentrated management should be the primary form. The head offices of corporations that specialize in foreign trade should either establish joint operations or should serve as an agent in exporting some of their products.

Labor-intensive products—mainly light industrial goods, textiles, and arts and crafts—do not generally have complex production technology. Production is relatively dispersed, export markets are diversified, prices are flexible, production batches are small, delivery time is critical, and changes of style are large, but after-sales service requirements are not great. It would not be appropriate with such products to have their industrial departments' industrial trade corporations carry out industry-wide contracting. What should be employed is two-way contracting between foreign trade corporations and export-producing enterprises. Under this format, the state export plan would be contracted to foreign trade corporations, the state plan for supply of goods would be contracted to producer enterprises, and industry and trade would implement either a purchasing system or an agent system depending on the product in question, and they should take dispersed management as the primary form.

As for categorization and contracting for manufactured products, we should encourage and support efforts by enterprises within the various industries to implement

joint operations and to form enterprise groups which integrate production and marketing into a single system, so that they can take part in international competition as enterprise groups.

We need to carry out a relatively thorough reform of the current foreign allocation system. We need to abolish the method of determining foreign exchange retention ratios on a regional basis and carry out a policy of making such determinations according to the products themselves. The principle that should guide these decisions is as follows: The highest ratios should be awarded to capital- and technology-intensive products that are in line with state policy and the direction of export development. The next highest ratios should be awarded to labor-intensive manufactured products. Ratios for farm, sideline, local, and specialty products should be lower. The lowest ratios should apply to exports of resources. Foreign exchange retention should be rationally distributed among foreign trade corporations, industrial and trading corporations, local governments, and export-producing enterprises. In principle, producer enterprises should retain more and foreign trade enterprises and local governments should retain less. Determining foreign exchange retention ratios according to the product is not only a prerequisite for implementing a foreign trade contracting system based primarily on contracting by industry; to a great degree it can also assure implementation of the state industrial policy as well as optimization of the economic structure and the export structure.

The various types of concessionary treatment offered by the state in order to expand exports should be targeted to specific industries rather than specific regions. Price, tax, and interest rate concessions should go to producer enterprises and foreign trade enterprises, and should not be intercepted by responsible departments.

The foreign trade administration and management system should facilitate the foreign trade contracting by industry reform. It should mainly perform industry management, coordination, and oversight, and it should use both administrative and economic methods to strengthen the state's ability to exercise macroeconomic management, regulation, and control of foreign trade.

It will not be necessary to change such external systems as fiscal policy, prices, taxes, or banking in order to implement a contracting system based primarily on contracting by industry.

#### **IV. The Feasibility of Implementing an System of Contracting by Industry in Foreign Trade, and an Analysis of its Advantages and Disadvantages**

In light of our experience in implementing China's various economic reforms, it should not be too difficult to carry out contracting by industry in foreign trade. The most difficult thing is to determine the standards by which products are categorized. The next most difficult thing is to determine foreign exchange retention ratios for various products. This is true particularly for labor-intensive manufactured products because these products

come in a multitude of varieties and their methods of production, technical specifications, and marketing methods and channels are infinitely varied. We must perform a lot of meticulous, difficult work in these two areas. However, in view of the fact that we already have some experience in categorizing products and have previously set foreign exchange retention ratios for various products, it will be possible through hard work to achieve a rational categorization of products, a division of labor in operations, and foreign exchange retention ratios. For this reason, I believe it is feasible to implement contracting of foreign trade by industry.

With respect to the ability of contracting by industry to dovetail with the current foreign trade system, the overall situation of the contracting system would remain unchanged. The only thing that would change would be the contracting entity or contracting person. Of course, changing the contracting entity would require several corresponding readjustments. For example, personnel, fiscal, and material relationships between head offices of corporations specializing in foreign trade and local branch companies, and between local governments and foreign trade and export-producing enterprises would change. Readjusting these relationships will affect the interests of various parties, and experience has already shown that readjusting such interests is the most difficult aspect of reform. However, assuming that enterprises throughout the country implement the contracting system, it will not be difficult to implement industry contracting for foreign trade, i.e.—incorporate state export plan and a state plan for the supply of goods into the enterprise contract system. It would also be compatible with the enterprise contract system. As for the readjustment of the interests of various parties, this is something that the state must carry out during the period of improvement and rectification. If we do not resolve firmly to carry out these readjustments, it will pose difficulties and obstructions for the development of the entire national economy.

With respect to maintaining the continuity and stability of policy, the fact that we would stay the course with the major aspects of the contracting system assures that implementation of contracting by industry would not bring too great a shock to the operation and management of foreign trade or to macroeconomic functioning. What is more, the contracting by industry which was implemented in the foreign trade system in 1987 has laid the foundation for continuity and stability of policy.

Implementing foreign trade reform based primarily on contracting by industry has the following main advantages: It facilitates the implementation of supervision of industry by the government and strengthens the state's ability to exercise regulation and control. Contracting by industry facilitates the growth and development of enterprise groups because it is much easier for enterprises within a single industry to engage in joint operations than it is for those in different industries. It would facilitate the effort to engage in joint operations and unify foreign trade policy and would help to overcome

the phenomenon of purchasing wars in China that drive up domestic prices, and price cutting on exports to boost sales. Repeated attempts to stamp out this phenomenon in recent years have failed. Resolving the problem would increase economic returns from foreign trade. It would facilitate a switchover to a new enterprise operations mechanism. While enterprises assume responsibility for the state export plan, they would take responsibility for their own profits and losses and would enjoy foreign exchange retentions, compensation for production costs, concessionary interest rates, and rebates on export tariffs. In so doing, we would be creating the conditions which would allow enterprises to take responsibility for their own profits and losses. Implementing contracting by industry would help to assure foreign exchange earnings for the central government, and it would enable this type of income to grow as exports increase. If we determine foreign exchange retention rates according to product type, and target various concessionary policies according to industry rather than region, it would help to counterbalance an unfair competitive environment, and it would facilitate implementation of the state's overall industrial policy. Finally, but most importantly, by implementing foreign trade contracting by industry would to a large extent avoid the problem whereby all regions cut themselves off from each other and close off their markets. This would change the trend toward convergence of industrial structural structures in various regions, reverse the deterioration of the export product mix, and spur an optimization of the benefits accruing from China's macroeconomic allocation of resources.

It must be pointed out that implementing contracting by industry for foreign trade does not mean a return to the old foreign trade system because the old system of monopoly operations by foreign trade departments would not be restored, nor would we return to the old model of a highly centralized product economy. Developing a planned commodity economy requires that the planning mechanism and the market regulatory mechanism be organically combined. As for whether it would be preferable to rely primarily on the planning or market regulatory mechanism at a particular time or for a particular department or industry, these decisions must be made on the basis of each case's individual merits. For at least the next two years, improvement and rectification will continue to be the guiding program for China's economic construction. At the same time, because foreign trade interacts with two different types of production, circulation, and exchange systems, it is necessary and feasible to make more use of some planning mechanisms as we set up the foreign trade system and promote the development of foreign trade.

Implementing contracting by industry for foreign trade has the following disadvantages and possible negative effects: Because the contracting entity would be changed, it would have a certain effect upon the enthusiasm of local governments for developing foreign trade. It would give rise to new types of discrepancies among local governments with regard to "responsibilities, authority,

and profits," thereby creating new conflicts which would impede the momentum toward growth of foreign trade. Primarily, it would create a conflict with the fiscal contracting system of local governments, causing it to encounter resistance in the course of operations. Implementing contracting by industry would require that the central government and various government departments and enterprises return to the bargaining table to reset contract base number, conditions, and requirements. This would lessen the scientific and standardized nature of contracting, and would harm the interests of the central government. Contracting by industry would strengthen the system of government regulation along industrial lines. If policies were carried out improperly, it would be very easy to regulate things to death, thereby affecting the ability to carry out the fundamental economic reforms aimed at revitalizing enterprises. Continuing to rely primarily on cost compensation and price differential compensation rather than exchange rate readjustments in order to expand exports could have an adverse impact upon our negotiations to join the General Agreement on Tariffs and Trade. It should also be pointed out that implementing contracting by industry for foreign trade when we have not fundamentally resolved the longstanding conflict between "departments" and "regions" [tiaotiao yu kuaikuai 2742 2742 5280 1040 1040] could actually exacerbate this conflict to some extent. Furthermore, as long as the current distribution of local administrative power remains unchanged, the implementation of contracting by industry for foreign trade will run counter to some local interests, and there will be resistance as concrete measures are taken.

As for other possible plans for foreign trade reform, it appears there are mainly two at this point. One is to continue to carry out separate contracting for every local area based primarily on local contracting. We would do all we could to adopt some revisions in order to lessen or avoid conflicts and problems that have arisen in the course of its implementation. I believe that there is already very little maneuvering room left in which to perfect and revise the current system of local contracting of foreign trade because interests have become entrenched. Furthermore, no matter how we revise it, it will be impossible to fundamentally resolve a series of problems related to the overall situation of the national economy, such as the economic returns from macroeconomic allocation of resources and the establishment of a unified market and fair competition. The other plan revolves around readjusting exchange rates, and would implement a system in which foreign trade enterprises took complete responsibility for their own profits and losses, enjoy operational autonomy, and have open operations. This is the long-term direction of foreign trade reform, but in the near term the conditions do not exist which would allow the implementation of this plan.

In short, the plan to implement contracting by industry for foreign trade is not perfect, but in the balance, its advantages outweigh its disadvantages. Besides, it would

be unrealistic and unscientific to expect to find a perfect plan for economic reform that would be beneficial to everyone's interests and also be capable of promoting development.

#### **Further Price Reform Tied To Control of Inflation**

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[Article by Hu Chaoping (5170 6389 1627): "Summary of Views on Economic Rectification and Intensification of Price Reform"]

[Text] For over a year now, the theoretical community and workers in the field have been carrying on a wide-ranging and in depth discussion on how to cure inflation and intensify price reform. The pertinent arguments are summarized below:

#### **A. The Relationship Between Curing Inflation and Intensifying Price Reform**

The intensification of price reform must be predicated on the control of inflation. A consensus has been reached on this point.

It is generally recognized by people from all quarters that inflation is one of the root causes of the deterioration of the economic climate and confusion in the economic order in recent years, an important reason why the achievements of price reform have been undercut and why price reform has been stalled. In the absence of a cure for inflation, the intensification of price reform will face impediment after impediment.

But should we resume price reform after inflation is brought under control or should the two go hand in hand? There are different answers to this question.

A more widespread opinion is that the taming of inflation requires that price reform slow down and proceed at the right time at the right pace, but not coming to a halt. It is necessary to go slow in price reform in order to create the conditions for furthering price reform and reduce the risk of reform to a minimum. The improvement of the economic climate and rectification of the economic order require that reform be intensified. The primary mission of economic rectification is to strive to achieve a basic balance between aggregate social supply and aggregate social demand. Toward that end, we must both curb demand and increase effective supply, neither of which can be accomplished without using the most effective economic lever, prices. Ignore the irrationalities in the current price system and freeze prices and you will only end up with a superficial kind of price stability. Meanwhile, production of goods in great demand will stagnate, the industrial structure will become even more irrational, and price distortions will worsen, masking even more serious price increases. If we manage to carry on price reform energetically and steadily even as we improve the economic climate and rectify the economic

order, not only will we avoid interfering with the realization of the objectives of economic rectification, but we will also advance and expedite the control of inflation.

The second opinion is that there is no way we can stop price reform because: 1) We have thus far failed to discover a short-term means that is more effective in mobilizing the enthusiasm of peasants. Better raise the prices of agricultural byproducts, particularly grain and cotton, ourselves so as to spur production and increase supply than wait for a drop in output to push up prices spontaneously. 2) Given the severe shortage of primary products, their under-pricing as well as the underpricing of services must be brought to an end sooner or later. Postponing reform will leave the difficulty and the pressure to the future when we may have to pay an even steeper price. 3) At a time when the price management system is already highly fragmented, the central government has great difficulty stopping enterprises and localities from raising prices.

The third opinion argues from the perspective of adjusting and improving the economic structure that price distortions are the worst barrier to improving the economic structure. There has been no fundamental change in the last few years. Moreover, there are constraints imposed by institutional factors like local financial contracting. For these reasons, the goal of strengthening industries producing goods in short supply, accelerating the development of such sectors as energy, transportation, and raw materials, and curbing ordinary processing industries have not been achieved. In March 1989, the State Council announced the focus of the current industrial policy. However, if the government has no effective means of implementation and if price relations remain grossly distorted, the announced industrial policy may become a mere scrap of paper and localities and enterprises will remain free to operate in accordance with the principle of profit maximization, paying no attention to the efficacy of macroeconomic resource allocation.

The fourth opinion examines the relationship between price reform and inflation. It holds that two conditions must be satisfied before price increases occur. First, aggregate demand exceeds aggregate supply, exerting pressure on the market. Second, household and institutional purchasing power can tolerate steep price increases. The increase in household purchasing power is the inevitable outcome of income diffusion during the course of reform. The increase in enterprise purchasing power was explainable by the diffusion of income as well as the credit explosion of recent years. As for the market pressure generated by the disparity between supply and demand, it is a direct expression of the longstanding economic structural imbalance, exacerbated in the past few years when income became diffused and demand went through the roof. Thus the skyrocketing prices in the past few years were actually the unavoidable result of the failure to establish income distribution mechanisms favorable to structural adjustment at a time when

income was diffused since reform began and the long-standing credit explosion. Price reform is not to blame. Certainly the "price reform fever" of 1988 did unleash preexisting inflationary expectations and was one of the factors that directly touched off a wave of panic purchasing. Thus we must lower the temperature of the "price reform fever," that is, play down the exaggerated fanfare and deflate the over-expectations surrounding price reform. Yet that is no reason to stop price reform.

Despite their differing emphases, these four opinions have one thing in common: we must tackle inflation at the same time as we step up price reform. Not everybody agrees with this conclusion, though.

The fifth opinion is that inflation and price reform are related to each other in a thousand and one ways. Price reform fuels price increases. At a time when inflation has gotten so bad, we would be adding fuel to the flames if we continue to move on the price reform front. Not only is this opinion widely shared among the ordinary citizens, but it is also held by comrades in both practical work and theoretical research.

## B. Measures To Combat Inflation

Inflation is a complex economic phenomenon. There are different opinions regarding the formative mechanisms of inflation. Opinions vary too about how to control it.

1. Change government policy. People who put forward this argument believe that inflation is a form of government behavior resulting from the policy choices made by government. Since inflation is a product of government policies, the upshot is, that when government carries out inflationary policies consciously or unconsciously, we must change government policies if we are to check and eliminate inflation. The problem is government—in particular, policymakers must rid themselves of any fantasies about inflation. Instead of racking their brains to come up with a way to survive three-digit inflation, they should summon the resolve to fight inflation. They should not give up halfway. Government policies should fully consider the danger inflation poses to economic development and reform. This is basic to making the correct policy choices and preventing disruption.

2. Retrenchment policy. Most practical workers and economic researchers believe that retrenchment is necessary for taming inflation. From their different perspectives they have outlined the need for retrenchment and pointed out the things we need to pay attention to. Opinions are divided on the effects of the retrenchment policy.

Opinion 1: The current bout of inflation is caused by the government's monetary policy. The course of inflation: fast growth leads to financial investment, which leads to increased bank loans, which leads to more currency issues, which leads to inflation. To control inflation is actually to shift from an expansionist policy to a policy of retrenchment and cut back on the money supply.

Opinion 2: Nondifferentiation must be adhered to in tightening the total volume. In other words, impose the same policy across the board. Combine the adjustment of the economic structure with the guarantee of effective supply to bring about orderly structural retrenchment. It is often said that we must not make everybody or every sector follow the same policy or measure. But if we do not reduce the total volume across the board and emphasize uniformity, we may very well end up tightening up the total volume without really shrinking it. Proceeding from the need for structural adjustment, even more people stress that retrenchment must not mean that policies are applied across the board.

Opinion 3: We must have a "burst of tenacity" during the period of retrenchment. To control inflation, we must curb demand and reduce the bloated money supply by withdrawing part of it from circulation. This is the only way to check the momentum of price increases. Since we owed the fast economic growth of the past to an expansion in money supply and price increases, we must now pay a price in the form of a drop in economic growth and even economic downturn if we want to check price increases. To stand up to the pressure for expansion in times of economic recession, we need a "burst of tenacity."

People who hold this viewpoint also argue that curbing the ultimate demand should be separated from easing the circulation of funds. When the banks' credit circulating funds and enterprise circulating funds become badly squeezed, an appropriate amount of relaxation is in order. But we must strictly prevent money from being spent as loans to finance fixed assets investment or as budgetary expenses. In the course of fighting inflation, some kind of economic downturn is inevitable. If we, fearful of triggering an economic downturn, hastily call off our belt-tightening drive even before the effort to curb demand has yet to show that it is clearly working, we will be faced with a more serious round of inflation.

At the heart of all these viewpoints is an endorsement of the retrenchment policy. In contrast, some people question the effects of retrenchment.

Opinion 4: In the final analysis, a tight-money policy cannot control inflation. Inflation is the result of a variety of factors working together. When inflation is caused by rising costs and other institutional and structural reasons, a tight-money policy alone will not bring it under control. In tightening the overall money supply, which admittedly will prevent the aggregate demand from expanding temporarily, we also restrain the effective aggregate supply to the same degree. As a result, the gap between supply and demand remains and the anti-inflation objectives remain unrealized.

Opinion 5: China's existing economic system has experienced fundamental changes. The traditional retrenchment policy is not as effective as it used to be. A credit crunch may very well be accompanied by a persistently large money supply and capital construction investment.

There are three reasons for this: 1) The new economic system has deprived the traditional retrenchment policy of its material basis. The central government has lost the ability to make the national economy expand or contract. 2) A decade of reform has left us with many expansionist policies and measures which inevitably run counter to the retrenchment policy; 3) The imbalance in interest distribution mechanisms formed in the course of reform has only served to fuel expansion while doing nothing to restrain it. Traditional reform measures have been rendered ineffective in the face of expansionist distribution mechanisms and various countermeasures.

3. Monetary policy. Many people propose that we refrain from imposing a policy uniformly across the board even as we tighten aggregate demand, arguing that the monetary policy should control the aggregate demand and, at the same time, help adjust the structure. As they see it, the latest inflation was caused mainly by the vast expansion in capital construction and consumption funds and an excessive demand. Tightening on the macroeconomic level, it is said, could only reduce the growth of consumption funds and fixed assets loans, without doing anything to really slash agricultural investment and working funds loans, perhaps even causing more harm than good. Only when you guarantee as well as cut back can you truly cure inflation.

Some people suggest that we follow a tight money policy of a structural nature through the banking system and adjust the industrial structure by adjusting the credit structure.

There is opposition to this kind of suggestion. Opponents say that while the banking system may tighten the total volume effectively, it is not in a position to adjust the structure because: 1) Money or credit is only an instrument of circulation or means of payment, not an actual element of production. A tight money or tight credit policy will fail because of an expansion in commercial credit; 2) Money is not elastic. It will inevitably find its way into the market through inter-industry interactions and the purchase of consumer goods and other assets by workers, whatever the channel or industry involved, thus intensifying the pressure on the market. 3) Investment expansion based on the principle of multiplier acceleration, even if it is structural, will also cause income and consumption to double, which, in turn, will hasten the trend toward investment expansion, thus setting the stage for possible double expansion. 4) The adjustment of the credit structure can only change the utilization rate of production capacity in some industries up to a point, not triggering off the adjustment of assets structure. It cannot, therefore, bring about industrial balancing.

People who advocate structural retrenchment also propose that funds, energy, and raw materials be limited across the board, controlling whatever should be controlled, preserving whatever should be preserved, and eliminating whatever should be eliminated.



This proposal too has its critics. They argue that this kind of structural retrenchment exacts a price: the return of centralization. Furthermore, they claim, while the central government can expand or contract investment of a structural nature, it cannot truly achieve structural balancing.

Someone has done an analysis of the conditions for structural contraction: 1) As the enforcer of the monetary policy, the central government must have broad macroeconomic regulatory and control power. The specialized banks must be skilled operators. 2) Interest rates exercise highly effective leverage in guiding and restraining the issue of money. 3) Important means are in place to coordinate the conduct of key economic players. 4) A clear-cut industrial policy exists to serve as the overall frame of reference in determining the direction of investment. 5) Profitability is the principal, even sole, criterion for accurately assessing the enterprise's own economic performance and its contribution to social economic well-being. These conditions do not exist in China. Hence the inability of the monetary policy to effect structural adjustment.

#### 4. Other measures:

—There are two schools of thought regarding raising interest rates. Each has its adherents.

One school of thought proposes that interest rates be raised enough to more than offset inflation. The objective is to remove public anxiety about inflation and encourage people to convert their excess income into deposits. By curbing the fund demand and investment demand on the part of enterprises and relieving the pressure of aggregate social demand, it is claimed, high interest rates are a perfect remedy for inflation.

The other school of thought contends that in China it is not realistic to try to check inflation by raising interest rates. To be an effective tool in curbing demand, interest rates must meet three conditions: 1) Relatively high interest-rate elasticity, (investment elasticity, savings elasticity, and transmission elasticity); 2) the hardening of enterprise budgetary restraints; 3) a sound market system. These prerequisites do not exist in China.

—There are many different opinions on how to check the diffusion of income and improve the central government's ability to regulate and control the macroeconomy.

People who propose that income diffusion be checked, and the ability of the central government to regulate and control the macroeconomy be increased argue that to control inflation, it is imperative that the trend toward income diffusion be reversed, that government revenues as a share of the national income go up, and that central government revenues as a percentage of all revenues increase as well. This is because while economic reform led to the diffusion of national income, no corresponding mechanisms to optimize the industrial structure were

created, which, in turn, caused imbalances in the industrial structure. Meanwhile, its regulatory and control abilities weakened by diffusion, the government has become much less effective or able in steering the economy and checking inflation.

Others base their case for curbing income diffusion on the need for structural adjustment. In the past six or seven years, it is argued, at a time when the distribution proportions of the national income had not been adjusted, whatever structural adjustment there was owed itself to the increase in the issue of money. This was an important reason why inflation worsened. Today this kind of drink-poison-to-quench-thirst approach is no longer sustainable. But since we need to complete the task of structural adjustment, we must beef up the central government's ability to regulate and control the economy; in other words, its authority in the areas of budget revenues and expenditures, currency incomes and expenditures, and foreign exchange incomes and expenditures, and expand the share of economic resources at its disposal.

There are those who think differently. They claim that neither the lessons of history nor the current situation encourages our hope that we can create a balanced economic environment by increasing the revenues of the central government. This is because we still do not have the ability or the tools to formulate scientific economic plans based on the principle of economic balance. Nor are we equipped with the power structure and institutional conditions to execute scientific planning. Given the distribution pattern already in place, we can only increase central government revenues so much by adjusting the distribution structure without bringing back the old system. As a means of adjusting the industrial structure and checking inflation, this is of limited use.

—There is a greater measure of agreement on the proper use of administrative methods.

Again there is no lack of opinions on how administrative methods can be used properly to serve the drive to improve the economic climate and rectify the economic order, but on the whole people agree with one another that there is a need to strengthen administrative methods but that they must not be abused. This argument is highly typical: Tackling inflation must be integrated with intensifying reform. In other words, we must use a mix of administrative and economic methods. In using the former, we must remind ourselves carefully not to put barriers in the way of our push toward a market economy. At a time when indirect mechanisms remain incomplete and imperfect, if we refuse to use some administrative methods, things will get out of control and we will not be able to handle the situation. This does not represent a return to the old order. It is just that we have no other choice. Certainly we must not forget the direction of reform as we go about determining the actual measures. Emphasizing the need for administrative methods does not mean that we can practice



monopoly and fragmentation under the cover of economic rectification. To do so would do nothing to solve the current problems. It may even further worsen resource distribution, exacerbate administrative market separatism, and render economic life more chaotic.

—Some people advocate that structural reform be intensified. The institutional root of inflation is the economic system. The existing economic system has three kinds of conflicts: conflicting interests between the state and the public, regional economic conflicts, and the conflict between the public interest and private interests. It is these three kinds of conflict that has been sustaining the consumption demand explosion and supply shortages. In addition, the existing system often induces the government to resort to inflationary policies consciously or otherwise, making it powerless in the face of inflation. Since inflation is caused by institutional factors, it has to be treated by intensifying economic structural reform. Remove built-in structural conflicts. Create an institutional base to go with the implementation of economic policies. Establish a sound market. Define property rights clearly. Turn enterprises into independent economic entities to harden interest mechanisms. Through the implementation of economic policies, inflation can be eradicated.

The preceding paragraphs offer an analysis of the comrades' overall thinking. Actually, most comrades advocate a comprehensive approach toward tackling inflation and have put forward a string of meaningful suggestions.

### C. How To Intensify Price Reform Amid Inflation

1. Principles of price reform It is suggested that as we intensify price reform during the drive to improve the economic climate and rectify the economic order. We take pains to accomplish the following: 1) make economic rectification our priority; 2) impose limits on the overall rate of retail price increases; 3) coordinate price reform with other economic reforms; 4) make sure that a majority of people do not suffer a decline in living standards and that production continues to grow; and 5) price reform must take place in a guided and orderly way.

Yet others propose that price reform go hand in hand with economic reform as a whole and the maturing of the market. It must not rush ahead prematurely on its own. At the same time, price reform must not come to a complete halt. Within these parameters, price reform during the period of economic rectification must abide by the following principles: 1) The "putting-out-a-fire" principle. That is, the priority in price reform is to resolve those price issues that directly impact the effective development of the economy and the people's livelihood and relieve the array of severe economic and social conflicts. 2) The "act-as-the-opportunity-presents-itself" principle. In other words, price reformers can only act in light of the actual conditions within the framework defined by the overall reform

goals. 3) The "step-by-step" principle, which means that reform should proceed gradually, starting as pilot projects at selected points before being widely adopted, depending on the differences between the various sectors, enterprises, and primary economic players in budgetary restraints, supply-demand elasticity, and operating methods. 4) The "low-cost" principle. That is, it should be applied to items with relatively minor impact on the overall price level and entailing limited social cost so as to prevent the economic climate from worsening.

2. The pace of price reform. Most people believe that it is still necessary to intensify price reform even in the midst of inflation. Nevertheless, price reform should not move too fast. Within this broad framework of agreement, opinion is divided on the pace of price reform.

One opinion is that the pace of price reform in the next five years largely depends on gains in productivity. Whether productivity will go up holds the key to the success of price reform and is the most crucial factor determining the replacement of the old price system by the new. Given the low level of productivity at present, price reform cannot proceed quickly.

Another opinion is that we should spend the three years from 1988 to 1990 tackling inflation first. After inflation is brought down to an annual rate of three percent, price reform and enterprise reform can then gather speed. In the next five years, the dual track pricing system should be replaced by a one-track market system. Before inflation is checked, it is inadvisable to make bold moves on the price reform front.

3. Emphases in price reform In inflationary times price reform must proceed cautiously. On that we have achieved a measure of consensus. Accordingly, the overwhelming majority of comrades say that we must proceed selectively with priorities, instead of pushing ahead across the board.

Some comrades propose that in 1989-1990 we concentrate on tackling inflation and creating a more relaxed environment suited for reform, at the same time carrying out partial reform and adjustment in accordance with a plan. In principle, the prices of commodities where supply exceeds or roughly equals demand should be deregulated as soon as possible. The large amounts of profits earned by some enterprises may be regulated through taxes. The revenues derived therefrom may go into a price reform fund.

Some comrades say that we should be clear about the following when deciding our priorities in price reform: 1) Right now the most urgent issue in price reform is straightening out the prices of basic products, particularly the prices of energy and transportation fees. They are the cornerstone of any effort to rationalize price ratios between commodities. The underpricing of primary products does nothing to promote economies in consumption or improve efficiency. On the contrary, it may even worsen the state of "cold economy" in the

primary industries. 2) The prices of agricultural byproducts should be further rationalized. Judging from the situation today, the prices of certain products have reached the international level. At a time when notable gains in productivity in agriculture are still out of the question, raising prices alone will not stabilize the agricultural market. Thus the reform of the prices of agricultural byproducts must be integrated with production development and proceed step by step. It is safer that way. 3) At present the standard of living of the Chinese people is still quite low. What people spend on food and clothing accounts for a large chunk of overall consumption. To reform the prices of consumer goods first does not contribute to the rationalization of price relations. On the contrary, by generating extensive social repercussions, it will cause a series of changes in the social psyche, thereby hampering the rectification of the environment and the successful introduction of price reform as a whole.

Should we start with the prices of consumer goods? It is suggested that we distinguish between three kinds of commodities: first, basic daily necessities; second, non-basic daily necessities; and third, upscale and luxury consumer goods. Regarding the first kind of commodities, the present level of average prices must be firmly maintained. Subsidize where subsidies are justified and restore the coupon system if supply fails to meet demand, but prices must be the same throughout the nation. Concerning the second kind of commodities, a state-run commercial regulatory fund should be set up depending on the actual circumstances. Market regulation should take center stage, supplemented by price control and a specified amount of government financial subsidies. As for the third kind of commodities, we should recognize the role of market supply-demand here (their prices in fact already accurately mirror genuine market prices and are taken into account in the price index). To insist on forcing them down to the list price level is not only impossible but also downright harmful. What we really should do here is to add a special consumption tax to the producer price, which would go into the central coffers.

Yet other comrades propose that even as we deal with inflation, we should not hesitate to take any action on the price reform front that would help balance the aggregate social demand and straighten out price relations. In this connection, we should pay attention to the following: 1) Speed up price reform in the circulation area; 2) narrow the gap between the two tracks in the "double-track" pricing system until they merge into one gradually; 3) promptly adjust a few prices that are patently unjustifiable and seriously impede the development of productive forces, focusing on grain and oil prices in contract procurement; and 4) accelerate housing reform.

Finally, it has been pointed out that price reform must be introduced in stages depending on the economic climate. In principle, first concentrate our energies on converting the dual-track pricing system as it applies to industrial capital goods to a single-track system. The aim is to have

the prices of at least 80 percent of the capital goods in sale volume regulated by the market. Deregulate the prices of nonbasic consumer goods of daily use. Widen the price differentials based on quality. Raise the contract procurement prices such as that of grain as appropriate in order to stabilize agricultural output. As our second step, we should straighten out agricultural prices and resolve the inverse relationship between the procurement and sale prices of agricultural byproducts other than grain rations, as a first step toward sorting out price relations between industrial and agricultural goods. As our third step, we should mainly tackle the underpricing of services, bring about the commercialization of housing, and raise rents significantly. Work hard to accomplish these three steps within five to eight years (1989-1996). Then spend the next five years or so consolidating and improving the achievements of reform of the previous period.

### **NPC Delegates Discuss Goal of Economic Stability**

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[ECONOMIC REPORTER] in Chinese No 13, 2 Apr 90  
p 3

[Article by Yao Kannan (1202 6373 0589) and Ho Iwen (0149 0076 2429): "Political Stability Will Be Hard To Achieve Without Economic Stability—Sidelights on a Visit to the National People's Congress"]

[Text] *We audited the discussions of the Tianjin and Shanghai delegations to the recent National People's Congress (NPC). When discussing the "Government Work Report," the people's delegates made many suggestions and official government participants also expressed their views.*

### **The Price Situation and Price Reform**

During the congress, we asked Cheng Zhiping [2052 5268 1627], director of the State Commodity Prices General Administration, "Why is 'keeping price increases clearly lower than the preceeding year's' not included in the government work report in 1990 as it was in 1989?" He replied approximately as follows: The price issue involves many aspects. For instance, we cannot accurately evaluate 1990's agricultural situation or summer harvest at present because PRC agriculture still depends on the weather. Although we have some sense of what must be done, we must still wait to see what time will bring.

When we asked Director Cheng "Are you fully confident that prices will be kept clearly lower in 1990 than in 1989?" he replied, "Although I believe that prices will be kept lower in 1990 than in 1989, how low they will be kept depends on conditions, and on agriculture in particular."

In reply to our question "Is the government under greater pressure from price subsidization in 1990 than in 1989?" Director Cheng felt that this was not necessarily

so, but that subsidization must be controlled as much as possible and not allowed to proliferate unchecked.

Cheng Zhiping also disclosed the following information: Price reform will proceed according to the objectives proposed by the 13th CPC Congress, i.e., the prices of most commodities will be deregulated as economic conditions permit so that they can adapt to market forces, while those of a few that affect the national economy and the people's livelihood will remain under state control. However, price reform must not be overdone and prices must not be overcontrolled.

#### **Tasks That MOFERT Plans To Accomplish in 1990**

After listening to the Shanghai delegation speeches, Shen Jueren [3088 6030 0086], vice minister of the Ministry of Foreign Economic Relations and Trade (MOFERT), spoke approximately as follows: PRC 1990 foreign economic relations and trade includes both favorable factors and considerable difficulties. It seems that a country like the PRC will not necessarily be able to increase its exports so quickly. Although the PRC has a population of 1.1 billion people and a very large domestic market, we must still maintain a steady increase in our exports in 1990. At the same time, we must do a good job of importing. As we have to spend the foreign exchange that we earn from exports to buy much-needed products and technologies, we must control certain imports that we do not urgently need.

Shen Jueren also pointed out the following tasks that MOFERT plans to accomplish in 1990:

1. MOFERT will better control things, such as export turnover, quality, licences, and quotas.
2. MOFERT will work hard to improve its economic efficiency. All foreign trade and industrial trade companies must improve their economic efficiency and speed up their fund turnover.
3. MOFERT will continue to inventory and reorganize its companies.
4. MOFERT will further study new plans to deepen foreign economic relations and trade reforms, which will be one of our key tasks for 1991.

#### **The Impact on the Industrial Structure of Singling Out the Best and Eliminating the Worst**

At a meeting of the Tianjin delegation, Xing Qifu [6717 6386 1381], general manager of the Tianjin Flying Pigeon Bicycle Group, spoke approximately as follows: State-owned commerce is now unable to fulfil its storage role, which is a policy issue that the government must resolve. For instance, 70 percent of bicycles used to be procured by the commercial sector. The increase in commercial costs from 3 yuan to the current 14 yuan, and the increase in the sales markup from 5.5 yuan to the current 10 yuan, means that the commercial sector loses 3 to 4 yuan for every bicycle that it sells. When it procures our bicycles, the commercial sector makes our

factory pay its loans in expectation of being paid later, in order to reduce its losses. The commercial sector now owes us 250 million yuan in loans because it cannot pay the interest.

In addition, the government should also resolve the issue of protection of backwardness. Many provinces and municipalities are protecting local interests by keeping high-quality products from other parts of the PRC out of their regions.

It will be basically impossible to restructure product mix and industry unless this issue can be resolved through macroeconomic policy.

Xiao Yongding [5135 3057 1353], vice minister of the Ministry of Light Industry (MOLI), spoke approximately as follows: Light industry now accounts for one-fifth of both the PRC's GVIO [Gross Value of Industrial Output] and exports. Although our industrial growth rate for 1989 was planned to be 10 percent, it actually only reached 5.2 percent, continued to slide in January and February 1990, and was minus 6 percent for February 1990.

We think that since the market slump bottomed out at the end of 1989, a series of comprehensive steps should be taken to thoroughly eliminate it.

Wu Zhen [0702 2182], chairman of the Standing Committee of the Tianjin Municipal People's Congress, spoke approximately as follows: I think that since PRC national conditions will not allow us to eliminate bicycles as our major form of personal transportation in the next decade, MOLI should conduct special studies on this issue and formulate a feasible policy to single out the best and eliminate the worst.

Xiao Yongding responded to this approximately as follows: Since the PRC can now manufacture 45 million bicycles a year, which is basically slightly higher than our demand, we should increase our exports in addition to continuing to develop new models. As the PRC exported 40 percent more bicycles in 1989 than in 1988, I think that we still have a good export potential.

Ye Bichu [0673 3880 0443], mayor of Tianjin Municipality, asked the following question: Since the PRC now has over 60 factories that manufacture bicycles, could MOLI not carry out a policy of protecting the best and eliminating the worst beginning with bicycles?

Xiao Yongding replied that MOLI has formulated an industrial policy for light industry that is based on national industrial policy, and has made plans for all light industry trade associations to conduct surveys, studies, and demonstrations of quality.

Zhang Zaiwang [1728 0375 2489], member of the NPC Standing Committee, spoke approximately as follows: The ministers of State Council Ministries entering into group discussions on behalf of the State Council this time, has been a breakthrough. I wonder if the State

Council could make another breakthrough by conducting comprehensive studies of certain practical problems that urgently need to be resolved. As past experience shows that the State Council generally needs six months to resolve most issues, I wonder if it could resolve critical issues as quickly as possible this time, since there are still 10 days until the end of the congress.

Wu Yongshi [0702 3144 6108], president of Tianjin University, agreed with this approximately as follows: I support Zhang Zaiwang's suggestion, because political stability will be very hard to achieve without economic stability. The State Council should make specific proposals to resolve the issue of the market slump, and we hope that the government can come up with a plan to accomplish this before the end of this session of the NPC.

### **Efficiency New Goal of Large, Medium-Sized Enterprises**

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pp 11-12

[Article by Yu Chu (5038 4554): "Ways for Large and Medium-Sized PRC Enterprises To Change from Extensive to Intensive Management"]

[Text] Since the PRC began to reform and open up to the outside world in 1978, its large and medium-sized industrial enterprises, which are the pillars of its state-owned industry, have begun a transition from a closed, purely production type, product economy to an open, production management type, planned commodity economy. These changes have brought unprecedented vitality to large and medium-sized PRC industrial enterprises.

Large and medium-sized PRC industrial enterprises are now facing a more comprehensive and fundamental transition from their current extensive type of management which gives priority to speed, to an intensive type of management that is focused on efficiency, S&T advances, and economy of resources.

The Fifth Plenary Session of the 13th CPC Central Committee decided to shift its economic focus to improvement of economic efficiency, by further improving the economic environment, rectifying the economic order, and deepening reform, in order to achieve long-term, sustained, steady, and coordinated growth of the national economy. This is the main economic ideology that PRC officials are now particularly emphasizing.

In the 40 years since it was founded, the PRC has achieved industrial and economic successes which have become the focus of world attention, has built an industrial complex that is fairly complete in all categories, and is now able to equip large key industries, such as mining, electric power, metallurgical, oil, chemical, automobile, and shipbuilding.

However, people in PRC economic circles have soberly pointed out that, generally speaking and due to a variety of reasons, PRC industrial growth is actually still in an extensive management stage, which relies mainly on constant expansion and the use of too many resources to strive for a rapid growth of industrial production. Since the PRC started out with such a weak industrial base, it is fair to say that it was realistic for it to emphasize speed and size in a particular historical stage, in order to pave the way for industrialization. But since the PRC has achieved a considerable amount of industrial growth, continuing to follow the same old path of extensive management would be bound to overload and waste national strength, and severely imbalance the structural proportion relations of the national economy as follows:

1. Extensive management strains the economic foundation. From an immediate perspective, the PRC's existing agriculture is already unable to support the excessive industrial production, and does not have the capacity to supply enough power, transportation, and raw materials for the too large manufacturing industry. The direct consequences of striving for too much size and speed are that it slants the production structure toward extensive management, the industrial structure toward ordinary manufacturing industries, and the enterprise structure toward small, medium-sized, and township enterprises. This precludes the optimum deployment of limited public resources and the full utilization of manpower, financial, and material resources, and is bound to cause a vicious cycle of too much input, too little output, and poor efficiency.

2. As extensive management is bound to encourage unnecessary duplicate production, importing, and construction cause a critical waste of investment, and tend to make the industrial structure in all regions too much alike, it cannot achieve the proper optimum results of a rational distribution of the productive forces or a rational division of labor in regional economies. A typical example of this is the surge of competition in many areas to manufacture household electrical appliances.

Due to unchecked growth, over 30 percent of the productive capacity of manufacturing industries throughout the PRC is not being brought into full play, and more than one-third of the large and medium-sized projects that have been completed and put into operation in recent years are not working up to even one-half of their designed capacities.

3. As extensive management causes a critical waste of resources and strives to achieve high speed through high consumption, it cannot achieve the results that are possible from a rational use of resources.

The PRC has been increasing its installed power production capacity 8 to 9 million KW a year, its raw coal mining capacity 20 to 30 million tons a year, and its crude oil recovery capacity over 10 million tons a year in recent years. Although increases on this scale are quite

unprecedented throughout the world, the PRC is still over 45 percent short of the power supply that it needs. Judged by advanced international standards, it is estimated that the PRC has had to consume 300 million extra tons of standard coal a year, or 30 percent of its current power production capacity, in order to achieve its present GNP.

4. Extensive management delays S&T advances and results in low-tech products, too little in-depth processing, and too little added value from labor.

PRC engineering industry enterprises still have a very glaring problem of obsolete equipment and backward technology. Although the PRC now ranks first in the world for having almost 4 million machine tools, more than 39 percent of them are ordinary ones, while less than 30 percent are highly sophisticated. It is very hard to manufacture high-quality products with such poor engineering industry technology. Another major reason for the poor competitiveness of PRC industrial goods on international markets, is that over 36 percent of PRC electronics products are at the 1960's level. As they have emphasized expansion to the neglect of assimilating, developing, and creating advanced technology, many enterprises have had obsolete product mixes for dozens of years or even for decades.

5. Extensive management is bound to result in an overheated economy, inflated demand, structural imbalances, imbalanced proportional relations, and enormous waste.

The restructurings of the PRC economy that always put proportional relations out of balance again and destabilize economic growth are directly related to the propensity to strive for faster growth rates by expanding production. According to comparable data for 1987, while steel output in the PRC of 56.28 million tons was 55 percent higher than West Germany's, power production of 497.3 billion kWh was 18 percent higher than West Germany's, and raw coal output of 928 million tons was 3.8 times higher than West Germany's, West Germany's total output value was 2.4 times higher than the PRC's and its export trade turnover was 6.46 times higher. This shows that the PRC industry economic efficiency is very poor.

These conditions show clearly that extensive management, which strives for growth through more input and high consumption, must be changed. Only by shifting from extensive to intensive management, and changing its focus from speed to efficiency, S&T, and economy, can the PRC achieve long-term, sustained, steady, and coordinated economic growth, make full use of its material resources that are in such short supply, shrink its S&T gap with advanced world levels, and create highly developed social productive forces.

Thus, PRC policymakers have proposed the following ways to change from extensive to intensive management:

1. Maintaining the Dominant Place of the State-Owned Economy by Bringing the Key Role of Large and Medium-Sized State-Owned Enterprises Into Full Play: CPC General Secretary Jiang Zemin recently emphasized the need to invigorate large and medium-sized state-owned enterprises. In order to develop the key role of large and medium-sized state-owned enterprises as the major providers of state revenue and effective social supply, not only must priority be given to ensuring their needs for power, transportation, raw materials, and funds, but they must also be given genuine decision-making power, be made to assume the sole responsibility for their profits or losses, and have self-development and self-limitation capacities, so that they can adapt to complex and changing public demand and the constantly changing domestic and international economic environments. Through coalitions, mergers, and contracts, the scope and span of their production management can be steadily expanded with little or no input, to form a number of large enterprise blocs that will have a major impact on their regions, and even on national economic growth. While bringing the key role of large and medium-sized state-owned enterprises into full play, it will also be necessary to actively guide the development of small, and township enterprises in particular, and to better manage the individual and private economies, so that they can continue to grow within the limits allowed by national policy.

2. Continuing To Reform and Open Up to the Outside World To Give Industry Exuberant Vitality: PRC reform is a self-improvement of its economic system, the crux of which is to gradually establish an economic operating mechanism that combines a planned economy with market regulation. Once it has this mechanism, the PRC will be able to generally ensure the coordination of industry with the national economy and the coordination of proportional relations within industry, prevent duplicate construction and unchecked growth, gradually change the tendency of regional industrial structures to be too alike, and combine macroeconomic and microeconomic efficiency in the deployment of resources. Once it has this economic operating mechanism, the PRC will be able to closely integrate planning with market forces, production with demand, and enhancement of macroeconomic regulation and control with improvement of microeconomic vitality, and achieve a good cycle of industrial growth.

Although reform and opening up to the outside world is an established PRC policy, repayment capability must be considered when importing capital, imported technology must be digested, assimilated, and developed, and management methods that are introduced from abroad must be adapted to PRC conditions, so that what is imported will make the PRC more self-reliant.

3. Continuing To Rationalize the Industrial Structure, the Product Mix, and the Enterprise Organizational Structure To Strive for Efficiency Through Structural Optimization: The economic restructurings of recent years show that it is basically impossible either to

achieve the best deployment of resources by restructuring product mix alone, without also restructuring industry, or to resolve structural imbalance conflicts by restructuring investment, without also restructuring capital reserves and enterprise organization. During the current shortage of construction funds, motivating economic restructuring with enterprise organizational restructuring, will play a key role in easing the conflicts between basic and manufacturing industries, generally optimizing the capital reserves structure, reducing material consumption, and improving economic efficiency. Therefore, the concerned departments are now in the process of closing down, merging, and upgrading a number of enterprises that consume and waste too many resources and have poor quality and efficiency. The productive capacity of these enterprises is being shifted to industries which the PRC urgently needs to develop, as well as superior enterprises, in order to speed up restructuring of industry, product mix, and enterprise organization.

**4. Relying on S&T Advances To Develop Industry Mainly Through Intensive Expansion:** Whether industrial growth strategy can make the transition from extensive to intensive management, hinges ultimately on S&T advances. All industrial enterprises in all regions and industries must have a strong sense of the capacity of S&T advances to develop industry mainly through intensive expansion;

**5. Enhancing Enterprise Management To Improve Management Quality:** It will be necessary to uphold and perfect the contract management and factory director responsibility systems, establish a management system that combines motivation with limitation, and set up unified, strong, and efficient production command and management control systems, in order to improve the overall effectiveness of enterprise management.

## PROVINCIAL

### Fujian, Shandong Agree to Economic Cooperation

SK1706092790 Jinan Shandong Provincial Service in Mandarin 2200 GMT 14 Jun 90

[Text] On 10 June in Fuzhou City, the Shandong Provincial group for study, visit, and economic cooperation and exchanges led by Provincial Governor Zhao Zhihao and Provincial Vice Governor Li Chunting signed an agreement with Fujian Province on establishing long-term and stable relations for economic and technological cooperation. Fujian Province is one of the five major economic open zones of our country. It has developed fairly rapidly in opening to the outside world over the past few years and, particularly, has achieved fairly remarkable results in the utilization of Taiwan and foreign capital.

In early June, the provincial party committee and government decided to send a group composed of responsible persons of the departments directly under the

province and mayors of the seven cities in the economic open zone of the Shandong peninsula, led by Provincial Governor Zhao Zhihao and Provincial Vice Governor Li Chunting, to Fujian to conduct a study and visit and to carry out economic cooperation and exchanges. The agreement signed this time defined that the two provinces will make the best use of their advantages as coastal open provinces to further strengthen their cooperation in foreign economic relations and trade, and in the import of technology, to strengthen the ties of their ports in order for them to establish their common advantages for opening up the international market together, to actively develop the scientific and technological cooperation and personnel exchanges between the two provinces, and to greatly develop the cooperation between the two provinces in the distribution of goods. Shandong is willing to provide manpower and material resources to support Fujian to develop economic development and opening to the outside world. Fujian is willing to serve as a bridge to import Taiwanese and foreign capital and introduce business partners to Shandong.

The agreement decides that the two provinces will hold some economic talks, commodity exchanges, and mutual visits on a regular basis every year.

Attending the agreement-signing ceremony were Provincial Governor Zhao Zhihao, Provincial Vice Governor Li Chunting and all the members of the group; and Chen Guangyi, secretary of the Fujian Provincial party committee, Wang Zhaoguo, deputy secretary of the provincial party committee and provincial governor, Jia Qinglin, deputy secretary of the provincial party committee, and (You Suixin), Shi Xingmou and (li Jinmei), provincial vice governors.

Governors Zhao Zhihao and Wang Zhaoguo signed the agreement on behalf of the Shandong Provincial government and Fujian Provincial government, respectively.

### Shandong Holds Meeting on Screening Companies

SK0507080790 Jinan Shandong Provincial Service in Mandarin 2200 GMT 4 Jul 90

[Text] Thus far, the province has abolished or incorporated 4,413 companies of various kinds at various levels, accounting for 26.8 percent of originally existing enterprises. Meanwhile, a number of unlawful and undisciplined cases have been investigated and dealt with.

The office of the provincial leading group for screening and consolidation of companies recently held a provincial meeting on screening and consolidation of companies in eastern and western areas of the province in Rizhao and Jinan respectively to emphatically discuss, examine, and decide the overall plans for various cities and prefectures to abolish, incorporate, or retain their companies, and to make arrangements for the work in the next stage.

The meeting maintained: Various cities and prefectures have paid high attention to, done much work for, and scored great achievements in screening companies. Thus far, the screening and consolidation of companies has entered its peak period. The meeting stressed: Various cities and prefectures should further strengthen leadership over and adopt effective measures for the continuous examination of companies with relatively more problems and should investigate and deal with unlawful and undisciplined cases according to law. Regarding the abolished and incorporated companies, departments concerned should immediately establish clearing organizations to conscientiously clear up creditors' rights and liabilities; should attend to the transfer and linking-up of the unfinished economic contracts; and should make good arrangements for the personnel of these companies in order to avoid division of funds and property and avoid rush grade promotion. For the retained companies, attention should be paid to improving their internal systems.

#### **Shanghai 1989, 1990 Economy Assessed**

90CE0229A Shanghai SHANGHAI JINGJI  
[SHANGHAI'S ECONOMY] in Chinese No 2,  
30 Mar 90 pp 15-18

[Article by Zhou Xiaolong (0719 1420 7893) and Jin Zhongyuan (6855 6850 3293); Lu Daosheng (7120 6670 3932), responsible editor: "Research Report on Shanghai's National Economic Development in 1989 and 1990"]

#### **[Text] I. The Improvement and Rectification Campaign Achieved Preliminary Results in 1989**

The year 1989 was the first year the state made an effort to improve the economic environment and rectify the economic order. As a result of the "double-tight" policy, economic situation has witnessed drastic changes and numerous problems. Before the shock waves created by the two working mechanisms—planning and market—clashing into one another disappeared, strong repercussions caused by macroeconomic retrenchment and a cooling economy came one after another. Before the gap of aggregate imbalance was filled, relative oversupply and insufficient demand already became important interfering factors. The export-oriented development strategy was barely put into effect when the "June 4th" disturbance cast a shadow on the opening up. Facing the severe economic situation, the Shanghai Municipal CPC Committee and Government have conscientiously implemented the central government's principles and policies concerning the improvement and rectification campaign, emphasized five words ("stabilize, suppress, control, readjust, and reform") in economic work, and concentrated efforts on work in five areas: namely, stabilizing market, suppressing investment, controlling consumption, readjusting structure, and deepening the reform.

As a result of the interaction of difficulties, contradictions, and subjective efforts, the orbit of Shanghai's economic movements in 1989 showed some characteristics that were different from the past. There was a falling-off in the annual development of industrial production, foreign exports managed to pick up with great difficulty since June, the increase rate of the total retail sales of social commodities declined markedly in the last seven months, the people's savings deposits of urban and rural areas increased steadily, and retail price indexes declined month after month since March. The results of economic development show that like the rest of the nation, Shanghai has achieved preliminary results in the improvement and rectification campaign. Their concrete expressions are in three areas:

A reasonable growth rate has been maintained during readjustment. The gross value of industrial output was 113.165 billion yuan, an increase of five percent over the previous year. Foreign exports set a new record on the basis of the previous year's growth and earned \$5.021 billion, an increase of 9.1 percent over the previous year. Agricultural production had a bumper harvest of late autumn crops, and the production and supply of major nonstaple foodstuffs such as vegetables, pork, aquatic products, and fresh eggs were better than last year's. Local budgetary income temporarily stopped sliding and reached 15.87 billion yuan by the end of 1989, the first recovery in recent years.

The growth of demand has been temporarily under control. With efforts, the scale of local fixed-asset investment may be kept within the evaluation targets issued by the state. The average monthly increase rate of workers' wages was 14.6 percent, lower than the increase rate of prices during the same period and the increase rate of workers' wages in the corresponding period of the previous year. The retail sales of consumer goods of social groups were \$5.3 billion, an increase of 12.1 percent over the previous year and an decline of approximately four percent after deducting the price factor. So they are also under control.

Market is stable and retail price indexes have declined markedly. The total amount of retail sales of social commodities in 1989 was 35.139 billion yuan, an increase of 12.1 percent over the previous year. It is gradually becoming normal. Market order has achieved a marked turn for the better. The savings deposits of urban and rural people increased 36.2 percent over the previous year. The retail price index of 1989 was 116.7 percent, a decline of 4.6 percentage points from the previous year.

Shanghai made preliminary achievements in the improvement and rectification campaign in 1989. We should neither underestimate nor overestimate these achievements. We must notice that while overcoming original difficulties Shanghai encountered new problems. First is that the amount of various loss subsidies increased substantially and the municipal financial department could not make ends meet. Second is that



enterprises' deficits increased and profits declined. Third is that the inventory of major commodities increased and more funds were occupied. In addition, the income level of about half of the residents in Shanghai declined to different degrees, greater than the scale of reduction in 1988.

## II. Deeper Problems Affecting Economic Development

1. When inflation was changed from demand-pull to cost- and structure-push and from dominant to recessive, enterprises and local finance took over most of the pressures created by inflation. As a result, their bearing capacity is near the critical point.

China's current inflation is of a comprehensive type. It is reflected as excessive demand as well as insufficient effective supply in addition to the problem of structural imbalance. It is a result of the accumulation of different problems over many years. After carrying out the improvement and rectification campaign for over a year by suppressing the scale of fixed-asset investment and controlling the consumption of social groups and the distribution of wages and bonuses, China has gained apparent control over the growth rate of demand. Through cleaning up companies and rectifying the order of circulation sphere, China has eliminated part of the demand derived from fake prosperity caused by arbitrage. By raising the interest rate of savings deposits and offering the service of value-guaranteed savings accounts, China has diverted and postponed the materialization of part of the demand. These measures have brought about preliminary relief to the contradiction of excessive demand. But it does not mean that the causes of inflation have been basically eliminated. Although market demand has been weak since June 1989 and industrial production witnessed negative growth since September, prices have maintained a definite growth rate. In November the retail price index of consumer goods was 107.1 percent, and the price index of capital goods was 107.63 percent. This phenomenon shows that inflationary pressure is still very strong, but as the demand problem is alleviated relatively, the pushing effect of cost and structure in inflation is gradually becoming the major aspect of the contradiction. First, retrenchment measures adopted in the first stage of the improvement and rectification campaign increased various cost expenditures while suppressing the demand. Since the state began the service of value-guaranteed savings in 1989, it has raised the interest rates of savings and loans twice, readjusted the ratio of tariff, and started the levy of land use tax and stamp tax. These measures have directly increased the cost of Shanghai's industrial enterprises by nearly 500 million yuan. The control of demand has also produced many indirect impacts. For instance, market is sluggish and stock is expanding; production speed has declined and production cannot achieve the economies of scale; and the scale of fixed-asset investment has been reduced and the construction cycle of many projects under construction has been extended. All this has increased the cost expenditures of enterprises. Second, the structural contradiction caused

by the shortage of resources cannot be resolved within a short period of time, and there is great pressure to push up the prices of finished products. The raw material prices of agricultural and mineral products are too low. Supply falling short of demand is a problem accumulated over the years, so it cannot be resolved within a short period of time. The price indexes of the capital goods purchased by Shanghai Municipality in the second half of 1989 were obviously lower than the highest month—April—but the general trend still is high. According to the statistics of the Municipal People's Bank, the general price index of capital goods purchased by Shanghai at the end of November 1989 was 18.92 percentage points higher than at the end of December 1988. Of which, nonferrous metal was 36.91 percentage points higher and textiles was 25.4 percentage points higher than the end of December. Because the price increases of basic raw materials are diverging in nature, they can spread to a large number of semifinished and finished products, thus pushing the general price level to go up.

As cost and structure put increasingly higher pressures on inflation, in order to ensure that the retail price index in 1989 was much lower than the previous year, the state increased administrative intervention in prices. The price increase of products whose prices are set by the state is subject to the system of "one pen." In other words, the price increase of all products whose prices are set by the state must get special approval from the State Council. This is de facto a price freeze. As a result, many price readjustment measures that should be introduced cannot be introduced, thereby making the price problem of processed industrial products even more prominent. On the one hand, cost- and structure-induced pressures continued to increase; on the other hand, the prices of processed goods could not change under administrative intervention, causing inflation to change from dominant to recessive. This forced inflationary pressures to switch from market to enterprises and local finance, causing enterprises' cost and local financial subsidies to soar and bring about a series of problems for the balance of funds, foreign exchange earnings and expenses, and revenue and expenditure. Shanghai's economy, which is based mainly on the processing industry, paid a great price in the first stage of the improvement and rectification campaign.

2. Economic structure is irrational, the burden is too heavy, and readjustment is difficult and cannot meet the need of development.

First, the focus of readjustment cannot be determined. What shall structural readjustment focus on in the current stage—developing the multiple functions of urban areas or restoring the prestige of Shanghai's industry; new industries or traditional industries? Although they are interrelated and interact with each other, when making actual arrangements, there is a question of where to put the emphasis. Structural readjustment is bound to promote some enterprises and discourage others. It is bound to produce some gains and losses. Those which are discouraged will be adversely affected in output



value and tax and profit delivery, while those which are promoted will have to increase income. Readjustment needs to pay a definite price. Under the situation where the double contract task of finance and foreign exchange is extremely arduous, to ensure the fulfillment of the contract task, we will consciously or unconsciously put the focus of readjustment on the practical basis of traditional industries. Second, the ability of readjustment is limited. The readjustment of economic structure may be unfolded from two aspects: readjusting new and existing investment. Under the macroeconomic situation where the state implements the "double-tight" policy, the readjustment of new investment is restricted first of all by the state control over the scale of fixed-asset investment, and second, by the source of funds. Since local financial departments signed a contract of 10.5 billion yuan of profit delivery to the central financial department in 1988, their income has indeed increased as compared to the past, but their expenditures are also higher. The expenditures of various subsidies in particular have increased substantially. As a result, local financial departments have less and less money to support structural readjustment. Due to the impact of the state's retrenchment policy, not very much of enterprises' own funds can be really used for investment. The readjustment of existing investment is restricted by the bearing capacity of society. Surplus labor produced by enterprises which have been closed down, whose production has been suspended, which have been merged into other enterprises, or which have switched to another line of production, cannot be easily absorbed. The readjustment of existing investment is also restricted by systems. Restricted by the so-called principle of "three things remain unchanged"—namely enterprises' administrative affiliation, ownership, and financial payment channels remain unchanged—it is very difficult to break through the barriers of vested interests of all fields and really accomplish something. Third, the motive power mechanism of readjustment has yet been formed. Since the improvement and rectification campaign, the state has formulated the industrial policy and Shanghai Municipality has drawn up a two-year readjustment plan and considered structural readjustment as an important task. But what is the motive power of readjustment? Who is the basis of structural readjustment—the government or the enterprises? If the government is the basis, the government has limited financial resource. Besides, under the fast changing market situation, the government cannot easily get the different kinds of information it needed for structural readjustment. If the enterprise is the basis, under the current system, the enterprise has limited financial power and authority. Fourth, the method of readjustment needs to be explored. What shall we rely on to carry out the readjustment—planning or market? Or shall we combine the two? If so, there is a question of how. Without solving these questions, it is very difficult to really start the readjustment of structure.

### III. Prominent Problems Facing Economic Development in 1990

The year 1990 is a critical one for the improvement and rectification campaign. Deeper and newly emerged problems in economic life have intertwined with each other,

difficulty has increased to an unprecedented degree, the room for regulation and control has become smaller and smaller, and some contradictions may even become acute. The main dangers of Shanghai's economic development in 1990 are: Prices remain high and the economy continues to slide. We should pay adequate attention to this.

1. It is difficult for industrial production to have a substantial growth.

First, judged from market trend, since the fourth quarter of 1989, sluggish markets have become the main factor restricting the development of Shanghai's industrial production. According to the guidelines of the Fifth Plenary Session of the 13th CPC Central Committee and the National Planning Conference, in 1990 the state will continue to implement the tight financial and credit policy, continue to suppress the total scale of investment, control the excessive growth of consumption demand, further clean up and consolidate companies, and resolutely rectify market order. Under the effect of these policy measures, if nothing unexpected happens, the trend of market slump will continue for a while. Second, the centralization measures newly introduced by the state in 1990 and the price readjustment measures of basic raw materials will further weaken the bearing capacity of enterprises and make it more difficult for enterprises to overcome the problems of market slump, fund shortage, and insufficient resources. In 1989, 150 enterprises in Shanghai Municipality could not fulfill their contracts. In 1990, under the triple pressures of inflation, market slump, and greater centralization by the central government, the situation of enterprise production will be grimmer. Third, the level of monthly industrial output value was relatively high in the first six months of 1989. Since March, the monthly output value has been over 9.9 billion yuan. It reached a record high of 10.07 billion yuan in June. The higher base figure has brought about some unfavorable effects on the growth of 1990. According to the analysis of the above three points, our initial projection is that Shanghai's industrial production will not be able to come out of the predicament of low-speed stagnation or negative growth in the first half of this year, but the production speed may pick up gradually in the second half.

2. Pressures behind the price rise will increase, not decline.

Although the retail price index planned for 1990 is lower than that of 1989, pressures pushing the prices to go up are much greater than in 1989. A concrete expression of this is "four greats and four smalls." First, the ratio of basic raw materials subject to price readjustment is great but that of processed goods is small. Major price readjustment measures adopted by the state in 1990 are aimed mainly at the raw materials of agricultural and mining production such as cotton, grain, and crude oil. The price readjustment of these basic raw materials contains in itself pressures pushing the prices of processed goods to go up. Second, the ratio of central price

readjustment is great but that of local price readjustment is small. It has become more difficult for the localities to absorb the price increases of raw materials, and various problems caused by prices will be more prominent than in 1989. Third, the ratio of planned price readjustment is great but that of spontaneous price increases is small. Planned price readjustment is easy to control but spontaneous price increase is very difficult to control. Under the demand-pull situation, it is very possible that spontaneous price increases will exceed the amount specified in the original plan. Fourth, the factor of new price increase is great and that of falling prices is small. The masses will feel the effects of price increases more than they did in 1989. In addition, affected by the readjustment of exchange rate, on the one hand, the domestic prices of necessary imports will be obviously higher than in 1989; on the other hand, the expansion of exports of competitive commodities will enlarge the gap of domestic demands, thus creating pressures pushing prices to go still higher.

3. The problem of revenue falling short of expenditure is prominent.

Calculated according to the current ratio of tax and profit delivery to output value in Shanghai Municipality, if industrial production increases five percent and commodity circulation increases 15 percent, revenue will increase 700 to 800 million yuan a year. But in recent years, Shanghai's subsidy expenditure has increased about 1 billion yuan a year. As a result, local financial departments have less and less money to support urban and production construction. In 1989, financial departments at the municipal level already witnessed deficits. In 1990 local finance faces a grimmer situation. On the one hand, the state will continue to implement the "double-tight" policy, further delegate subsidy expenditure to lower levels, add new taxes and bonds, and further "centralize" part of enterprise and local income. Under the current situation, it is difficult for Shanghai's industrial production to have a substantial growth. The potential for increasing production and income is not great. Due to the influence of state measures for price control, expenditure for various subsidies will continue to increase. All of these factors will seriously affect the growth of local revenue. The amount of local revenue which can really be used for budgetary expenditure may decline as compared to that of last year. On the other hand, all expenditures are rigid in nature and have not much room to compress. The balancing problem of revenue and expenditure will be more prominent.

4. The supply and demand situation of funds is grimmer.

In 1989, under the effect of macroeconomic retrenchment policy, Shanghai Municipality had a severe shortage of funds, seriously affecting capital turnover. Shanghai paid more and more money in advance to purchase raw materials from other localities but could not collect payment on time on the commodities it sold. As a result, it lost money at both ends, thus worsening the shortage of funds. If market does not take a big turn

for the better in 1990, the problem of capital turnover will continue to exist. In order to increase the ratio of central revenue and reduce the deficits of the central government, the state will begin this year to levy investment regulatory tax, raise the business tax rate, and increase the task of local revenue delivery to the state. It is estimated that these measures will reduce the availability of Shanghai's funds by several 100 million yuan. Moreover, savings deposits increased by a fairly large margin last year. A special reason is that a part of business capital of individual economic households was transformed into savings. Because of this and the fact that the amount of subsidy for value-guaranteed savings has been reduced, Shanghai's ability to absorb deposits has declined, reducing the sources of funds in 1990. The conflict between reduced capital sources and clogged capital turnover and the great demand for funds has determined that Shanghai's capital situation will be grimmer this year.

5. Hidden factors of social instability may become acute.

First, market situation may take a sudden turn for the worse and cause the masses to panic again about the price rise. We must point out that the current sluggish phenomenon of consumer market is the achievement of the first stage of the improvement and rectification campaign as well as the result of direct economic intervention by the government and partially recessive inflation. The actual amount of commodity inventory has not increased much, and many commodities are undersupplied as a result of structural imbalance. The problem of aggregate social imbalance has not been resolved fundamentally. The surplus purchasing power of society is increasing year after year. The basis of market stability is very weak. Factors affecting market stability are mainly as follows: The exchange rate of renminbi has been lowered; the import of high-grade, durable consumer goods has been reduced; the annual subsidy rate for value-guaranteed renminbi savings deposits has been lowered since the falling of market prices; more prices will be readjusted this year under a plan; and there are more factors of new price hikes than in last year. Market situation may be triggered by anything at any moment and take a turn for the worse. Second, the pressure of unemployment and replacement has increased and the employment problem has become increasingly acute. When new problems are added to the old ones and when they accumulate to a certain degree, the contradiction will be sharpened.

Problems in the abovementioned five areas are interrelated and condition one another. Among them, the trend of market prices has played a role of catalyst in the transformation of contradictions. If market continues to remain sluggish, prices temporarily will not increase by a large margin, but production will not be able to increase, nor will revenue. The government's ability to hold back price increases will weaken, enterprises will not be able to bear it, unemployment will increase continuously, and the hidden factor of social instability may become more

acute. Conversely, if the market suddenly booms, production will go up, revenue may increase, the problem of lay-off and replacement may expect to be alleviated. But, pushed by cost and structure and pulled by demand, inflation will be stronger still. As a result, the factors of social instability may become acute all the same. Macroeconomic policy makers are in a dilemma.

In the economic work of 1990 we must properly handle the relation between stability and development, and insist that stability be regarded as the primary goal and given the first priority. Only by maintaining social stability can we guarantee economic development. At the same time, only by maintaining economic development can we guarantee social stability. Economic development must be subordinated to and serve the prerequisite of stability. Shanghai should take stability as its goal, accelerate development with readjustment, and ensure stability with development.

## FINANCE, BANKING

### Plans for Central, Local Financial Restructuring

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[Article by Yin Xiao (3009 2556): "A General Scheme for China's Financial Restructuring"]

[Excerpts] [passage omitted] To distribute functional authority between the center and the localities,<sup>1</sup> we must first determine what the functions, or functional authority, of government are in the life of economic society and recognize the necessity of divvying up these functions between the center and the localities. The economic and social functions of government, which are managing the public affairs of economic society, include two aspects. The first is external, and includes safeguarding national interests and signing external treaties. The second is domestic, and includes the establishment, development, and leadership of an army; the harmonizing, safeguarding, and development of ethnic group interests; the formulation and issuance of laws and policies; the unification and reform of the monetary and weights and measures systems; the safeguarding and collection of customs tariffs; the organization and management of social and economic activity; the development of science, education, culture, and public health; the administration of public welfare programs; and the maintenance of social order. Although these facts are common knowledge, we should recognize that, because of time constraints, inertia, and the impulse-response mechanism, China's central government cannot perform all of its functions or exercise its functional authority promptly and effectively. Thus the localities must carry out much of the center's functions. In other words, there must be a division of labor with respect to this authority: some authority should be exercised by the center, some must be handed over to local governments, and some must be jointly exercised by the center and the localities. [passage omitted]

The achievements in encouraging industrial growth, investing in capital construction, assisting medium and small enterprises, especially town and township firms, promoting lateral economic associations, and breaking into new international markets by local governments at all levels since the beginning of the 1980's have convinced us that local governments are capable of managing their own affairs. There arises a practical issue that no one has thought to address: namely that the center can control local government behavior and the overall economy by perfecting the system. [passage omitted]

We remind everyone that an economic society forms an inseparable, unified whole and that there are bound to be some matters that must be jointly handled by the center and the localities. For these matters we must specify the authority and responsibility of both the center and the localities. We always used to generalize that major matters affecting the national economy and the people's livelihood should be handled by the center, which was a vague formula. First, no one can specify what is or is not a "major matter affecting the national economy and the people's livelihood." Second, emphasis varies across time, so matters that were important in one period are no longer important in another. Third, the center cannot and need not monopolize all "major matters affecting the national economy and the people's livelihood," such as posts and telecommunications, transport, and agriculture. When duties are undefined, everyone vies to undertake affairs that promise reward and shirks matters that offer no reward; thus the latter ultimately have to be borne by the center.

The crux of the issue may lie in the fact that China is in the midst of a transition from a natural-product economy to a commodity economy; [its commodity economy] is not yet fully developed and its level of socialized production remains low. If authority is dispersed now, it will be impossible for China to organize modern industrial production, because the low level of socialized production denies the central government sufficient conditions to effect direct, centralized management. Thus it is necessary to motivate both the center and the localities to exercise managerial authority at each administrative level.

In sum, there are three basic principles behind division of authority in China. First, not only is direct central government intervention necessary, [but] objectively speaking local governments cannot supplant it. Second, local governments should directly intervene in more economic and social affairs. Third, the respective duties of the center and the localities in joint matters should be specified so as to avoid confusion and buck passing between the two.

In line with these principles, the functional authority of the center and the localities should be delineated<sup>2</sup> roughly as follows.

Legislation, the courts, foreign affairs, national defense, monetary policy, establishment and development of key

institutions of higher learning and of important research institutes, price index control, sectoral restructuring, and the like should be handled by the center alone.

Social welfare, health care and sanitation, environmental protection, middle and primary school education, agricultural protection, infrastructural development, and the like should be handled primarily by the localities. A substantial portion of these matters should be delegated by the center to the localities, or rather effected by the center through the agency of the localities. Such projects may be of three types. The first consists of projects in which local functional authority would affect the interests of the entire nation and of other localities; these projects should therefore be subject to direct central control. The second type consists of matters that localities cannot handle alone; the state should bear some responsibility and possess the authority to coordinate. The third consists of central affairs that occur in the localities and that might be managed more effectively if directly assisted by localities, that are delegated by the center to the localities, and that the center funds, fully or partially. Obviously, the center would possess almost complete control authority over such matters.

By establishing the concept of and specifying delegated affairs, we can achieve two things: First, we clearly delineate the duties of the center and of the localities in jointly handled affairs. Second, we possess a system by which to ensure that localities keep the broader picture in mind, a desideratum that would not otherwise be achievable.

With the exception of the matters delegated by the center to the localities, the rest of the aforementioned affairs are to be handled by the localities independently. [passage omitted]

Here there arises something to which we must be especially attentive. Since localities will directly handle matters delegated by the center, these matters will show up in local budgetary expenditures, [whereas] most funding will be supplied by the center as budgetary assistance, which is an expenditure for the center (and a revenue for the localities) [but] by no means involves its [the center's] direct intervention in economic and social affairs and thus by no means directly reflects the structure of functional authority. Therefore, in our theoretical analysis we need to introduce a new concept, "net annual expenditure," which is the ultimate outlay by the center and the localities for economic and social affairs and excludes double accounting. For example, net central expenditure would be central outlays minus central budgetary subsidies to the localities. This concept thus could be used to represent the true distribution of functional authority between the center and the localities. Our current, preliminary view is that central and local net expenditures should gradually be fixed at 40 and 60 percent [respectively]. In other words, in distributing functional authority, we should seek to achieve a smaller role for the center and a larger one for the localities.

### **Appropriate Separation of Taxes Forms the Foundation of the Graded Financial System**

To ensure that governments at all levels possess the financial authority (financial resources) needed to exercise their functional authority, we must divvy up financial authority (financial resources). In actuality, the delineation of functional authority provides a basis for the allotment of financial authority (financial resources), of which there are two basic components. First is initial allotment of financial resources, whose core is the tax system. The second involves redistribution of revenue sources, namely, regional financial readjustment. The second component will be discussed in detail below. Here we shall examine the first component.

Revenues are the main pillar of expenditures,<sup>3</sup> so the tax revenue system forms the foundation of the financial system, and thus the establishment of a rational system of tax collection between the center and each level of local government comprises the bedrock of the graded financial system.

A decade of reform has proved that financial contract responsibility<sup>4</sup> is increasingly unsuited to the needs of a graded financial system, and the shortcomings of the system are widely recognized. Thus we face the task of reconfiguring central-local revenue distribution. On this matter, I endorse the view held by more and more comrades, who argue that China should effect tax separation. However, my notion of tax separation may not be entirely the same as that of other comrades.

Theoreticians by and large hold two views regarding tax separation. The first view stresses division of "taxes," arguing that tax separation involves allotment of tax types and rates between the center and the localities, ultimately focusing on the distribution of tax revenues therebetween. The second view focuses on the "system" of tax separation, arguing that two different systems be employed by the center and the localities. I believe that tax separation is neither the division only of "taxes" or only of "systems" but that the two approaches must be integrated. In other words, tax separation must involve both delineation of tax collection authority (as well as the organizational system for tax collection) but also allotment of tax types. [passage omitted]

In connection with the political-economic system, complete tax separation carries strong overtones of local autonomy, which is practiced by old-style Western countries, such as the United States. Appropriate tax separation, however, is suited to systems that combine an appropriate amount of centralization and local autonomy, such as practiced by Japan.

Clearly, tax separation is greatly influenced by the objective environment and involves many issues, including national legislation and judicature and the government financial system itself. Moreover, tax separation must also be suited to a nation's political and economic systems. These facts suggest that the establishment of a system of tax separation bearing Chinese characteristics

will be an arduous task and must be rooted in the principle of integrating international experience and domestic reality and cautiously explored. The foregoing analysis demonstrates that China does not yet possess the necessary conditions to effect complete tax separation and that appropriate tax separation is better suited to China but must also be recast.

1. We must retain an appropriate amount of the general features and advantages of tax separation. Briefly put, China must also create a system in which there are central and local taxes and taxes that are shared by the center and the localities.

2. We must also respond to actual conditions in China. In designing our tax separation system, we must accord the center the leading financial role, which should be a fundamental principle. There are roughly three ways in which financial authority is delineated, in accordance with the nature of state management, in the various countries of the world. The first is consumption-type management, such as practiced in the United States and the Federal Republic of Germany, where the state bears the burden of expenditure principally for national administration, defense, and social insurance. The second is welfare-type, such as practiced in Sweden and Denmark, where the state generally bears much of the national expenditure for high levels of social welfare and consumption. In these two approaches, central revenues and outlays account for 50-60 percent of all government income and expenditure. The third type of state management is developmental, such as practiced in China, the Soviet Union and Eastern Europe, and to a large extent Japan. Besides expenditure for national administration, public facilities and utilities, and public welfare, much government expenditure in this approach is directly used for investment in the development of production. In China, besides bearing the heavy burden of funding reform, key national development projects, and construction of important scientific and cultural facilities, national defense, and foreign aid, the center also adjusts provincial dearth and surplus, helps the localities balance their budgets, and the like. The center must have an assured supply of financial resources commensurate with the burden it bears, and its share of government revenues must be returned to 60-65 percent. In other words, in distributing financial authority and financial resources, we must accord a big role to the center and a smaller role to the localities, in contrast to the "small center, big localities" in the distribution of functional authority advocated above.

Following from this analysis, the main features of China's tax separation system should be as follows.

#### A. The Delineation of Central-Local Authority To Tax

1. All authority to administer central taxation, including the authority to legislate, to judicially interpret, and to grant abatements with respect to central taxes, must belong to the center. In determining which taxes should be central, we should strive to achieve the following

principles. (1) In terms of tax types, those that exert a major effect on national economic development, such as customs tariffs, should be kept in central hands, [so as to] ensure that central tax revenues continue to function as a macroeconomic control lever. (2) Central taxes should be superior to local levies. First, the center should tax in accordance with its ability to do so, whereas the localities should tax according to the services they provide. Second, central taxes should possess greater revenue flexibility and potential for stable growth, so that government revenues resulting from economic growth flow mainly to the center.

2. Authority to administer local taxes should appropriately be divided between the center and the localities so as to enhance the center's ability to adjust local revenues, which approach principally includes the following. (1) The authority to issue legislation on local taxes should belong to the center, and all matters pertaining to such authority should be handled by the center. In particular, the center should have the authority to initiate or terminate unified, national local taxes. (2) With respect to local taxes affecting balanced economic development among regions, the center should possess the authority to initiate such levies and to set the rates therefor, to decide which things should be subject thereto, and to make changes therein, so that we can ensure that regions compete on as level a playing field as possible. (3) The authority to grant abatements of local taxes may be given to the localities. (4) Localities should have the authority to initiate local taxes other than unified, national ones but must report such moves to the center for recording and approval.

3. The authority to legislate and to grant abatements of taxes shared by the center and the localities should belong to the center; other authority pertaining to such taxes should be divided up between or jointly exercised by the center and the localities. Generally speaking, most revenues from shared taxes should go to the center, but under special circumstances may be diverted in order to benefit the localities.

#### B. Central-Local Tax-Type Delineation

Since tax separation originated abroad, it may be more practical to examine foreign experience [with tax separation] and thus decide how to delineate Chinese taxes. The United States and Japan have long practiced tax separation and show the following common features. (1) Central revenues comprise the lion's share of all tax revenues and are stable over the long term. (2) In terms of the composition of taxes levied by each level of government, all taxes that affect the national economy or that facilitate central macroeconomic control are central, whereas local levies generally do not exert a major impact on the national economy. (3) Statistics for a number of fiscal years for these two countries show that central revenues cover 80-90 percent of the central budget, whereas localities often request central assistance.

In separating our taxes, we must consider two objective situations: The revenues, outlays, and base figures of the center and of each province and municipality, and the existing tax system. These matters are highly technical and must be examined carefully.

Further analysis shows that, starting from the current tax breakdown, we must reform and perfect our tax system, gradually overhaul central-local tax division, and have the center and the localities share tax sources and revenues from similar tax types.

**Regional Financial Readjustment Offers an Important Way To Effect Macroeconomic Control under the Graded Financial System**

[Passage omitted] Financial readjustment should be effected through the formulation of relevant laws, such as a law governing government finance, and includes the following major elements. (1) The center allocates subsidies to readjust regional differences, which practice is known in short as differential readjustment. Once financial authority is allotted to each administrative level, undeveloped regions and areas inhabited by minority nationalities may face more difficulties, [so] the center must assume responsibility for readjusting regional differences. Here the value-added tax, which is shared by the center and the localities, will play an important role.<sup>5</sup> In dividing up this tax, the center can do two things. First, in sharing the tax with poor regions, the center can grant those regions a larger part or even all of the proceeds. Second, from the total proceeds, the center can extract a sum for the establishment of a central fund in order to readjust regional differences and to assist financially weak regions.

The biggest problem in implementing regional readjustment may be how to make central subsidies "life creating" so that aid to impoverished regions promotes their economic development. This is an old problem that of course will not immediately be resolved through the graded financial system. Thus in our practical work, we must draw up detailed rules and regulations for the implementation of a graded financial system for each region based on regions' differing needs and strive gradually and as much as possible to reduce the burden on the central budget.

2) Central subsidies provide policy inducements, a practice known in short as policy inducement. Generally speaking, this form of subsidy is like a special fund in nature. In accordance with the principle of division of functional authority, this subsidy can take three forms.

i. Affairs that localities must undertake in accordance with unified, national criteria, such as paying salaries for middle and primary school teachers. Such affairs in reality are accomplished by the center through the agency of the localities and, in essence, constitute a central outlay.

ii. Affairs that ought to be undertaken by the state but that occur in and thus are delegated to the localities, such

as funding for interregional projects or transportation facilities. Such matters should partially or totally be funded by the center.

iii. Local undertakings that the center believes need encouragement or assistance, such as reclamation of agricultural land from the sea or the development of agricultural production.

Of these three forms, the rules governing the first two are more strict, while there is more flexibility for the third. On the whole, the rules governing use of policy inducement funds are quite strict, the funds must not be misappropriated, and violators should be sternly punished.

Although the operation of the policy inducement system has been regularized in accordance with relevant law, the basis of the system varies over time, which is to say that subsidy guidelines are susceptible to change. The problem here is that the central government's macroeconomic policies must be rationalized and made scientific. This poses a demanding challenge to central decision-making.

3) The center's use of its financial resources to purchase local bonds and its formulation of rules governing local bond use exert a certain amount of control on local budgeting and are known in short as local bond use. Budgeting at each administrative level is what a graded financial system is all about. Once local budgets become relatively independent, localities can, as needed, issue bonds to cover shortfalls in revenues and thereby balance their budgets. Two important moves are available to the center in this area.

a. The center can purchase an appropriate share of local bonds. Thus these bonds, a form of public credit, would to a certain degree reflect the redistribution relationship between the center and the localities.

b. The center can formulate laws governing and effectively control local bond use. At this point, we should differentiate bond types and draw up specific rules governing the purposes and uses of each type, the ways in which bonds are issued, the purchasers, their yields and maturities, as well as the authority to approve issuance. In addition, we must strictly prohibit local use of bonds to cover budgetary deficits.

Clearly, the center's use of funds and of the system to control local bond use can exert a certain amount of control over local budgeting and make local behavior conform to central wishes as much as possible. Of course, we must be sure to overcome the following two shortcomings that might arise in local bond use. First, central expenditure of huge sums to purchase local bonds would place a heavy burden on the center, and any wrong decisions on the matter might produce dreadful consequences. Second, coercive central control of local bond use will not only severely undermine local budgetary independence and thus dampen local enthusiasm

but also be very prone to engendering dependence mentality among localities and to increasing pressure on the center.

#### **Interprovincial Mutual Financial Assistance Is a Necessary Supplement to the Graded Financial System**

Comrades who oppose tax separation are worried about how we can deal, once the graded financial system is in effect, with the differences in wealth among eastern, central, and western China. My basic answer to this is that we must not focus just on tax separation here. Although tax separation is the core of the central-local distribution relationship, it is, after all, not the only element; it is also interwoven with the political and economic systems and must function in tandem with other systems. In other words, the graded financial system comprises a series of systems, including tax separation. Further, under the graded financial system each system will perform a different function. For example, regional financial readjustment will play a very big role in strengthening central macroeconomic control over the localities. [passage omitted]

There are three major objectives of interregional mutual financial assistance. (1) Financially weak provinces should be fully able to finish the work for which they are responsible and at least be able to provide the average level of public service. (2) Financially weak provinces should be able to accomplish their work independently and be responsible for their own budgets. (3) We must avoid as much as possible overreliance by "poor" provinces on "rich" ones and giving "poor" provinces excuses not to fulfill their duties.

Lateral assistance by "rich" provinces to "poor" ones will encounter two problems: How to define "rich" and "poor," and how much aid should be given. As to defining "rich" and "poor," I should like to introduce two new indices, "estimated tax revenues" and "budgetary need." Estimated tax revenues are computed by totaling the proceeds from a province's principal taxes. Since regions will enjoy much autonomy in setting the rates for some of their taxes, revenues will be affected. Thus, in estimating tax revenues we must use state prescribed "standard tax rates" as the base figures. Budgetary need equals national tax revenue per capita times the population of the province.

Before comparing these two indices [for each province], we must make some downward adjustments in the estimated tax revenues of some provinces. The first are for unusual circumstances, such as in the case of the capital, Beijing, which shoulders a heavy burden of social undertakings. Second, the center has granted some provinces preference in economic development during different periods. Third, the burdens of providing communications, environmental protection, as well as water, coal, and electricity vary among provinces owing to different population densities. When this [adjustment] is done we can compare the two indices. All provinces whose budgetary need exceeds estimated tax revenues

are "poor," while the reverse are "rich" and are obligated to provide assistance to the former.

As to the amount of assistance to be provided, to prevent this aid from reducing the incentive of both "poor" and "rich" provinces to increase tax revenues, we must ensure that the sum of central and "rich"-province assistance does not exceed the budgetary need of "poor" provinces. The limit on total assistance, for example, might be 95 percent of this need, while the province receiving assistance would still have to come up with the remaining five percent itself. Additionally, it would by no means be necessary for all "rich" provinces to provide assistance. Provinces whose estimated tax revenues exceed budgetary need by only a small amount, for example, would not be obligated to transfer revenue, and even those provinces "rich" enough to assist "poor" ones would not have to transfer all of their surplus but rather a sliding share, as in the case of progressive taxation.

As "rich" provinces assist "poor" ones, one province's gain would equal another's loss, and central revenues would not be reduced by a single penny. Thus interprovincial mutual assistance will effectively eliminate regional differences and enable all to share in prosperity.

#### **Footnotes**

1. Distribution of functional authority also includes delineation of governmental and private affairs, which in essence means that the government need not intervene in matters that enterprises and residents ought to be permitted to decide for themselves, such as in China's program of separating administration and enterprise. This article examines only the distribution of affairs among each level of government.

2. In other countries, this delineation is accomplished in two ways. The first is "specification of central authority, with the remainder devolving to the localities (the states)," such as in the United States, where the federal government assumes specified, major authority, such as for national defense, foreign and monetary affairs, postal administration, taxation [sic; "collection of customs duties"], supreme law of the land, and internal security, and all unspecified or residual authority reverts to state governments. The principle of the other approach, "specification of local authority, with the remainder reverting to the center," is the same. Of these two approaches, the first is more representative. In either case, the authority of each [level of government] is specified.

3. Due to the imperfection of China's tax system, the full level of tax revenues is by no means reflected in statistical reports. A considerable amount of the proceeds included in state revenues is actually taxation in nature.

4. China has employed a variety of such systems in the past, and while the names varied, the systems essentially boiled down to financial responsibility contracting.



5. Briefly, the following are the justifications for making the revenues from the value-added tax shared. 1) As China's tax system improves, this levy will become a major element among her turnover taxes. Sharing of the levy may help us balance central and local budgets, something no other tax can do. 2) The greatest advantage of the levy is that it does not entail double taxation, so localities cannot abuse their authority thereover, which fact enhances central control over the impost.

### **Agricultural Bank To Increase Loans to Pudong Area**

*OW0407045090 Beijing XINHUA in English  
1449 GMT 3 Jul 90*

[Text] Shanghai, July 3 (XINHUA)—The Agricultural Bank of China will increase its loans to the new Pudong development area in Shanghai over the next five years, President of the bank Ma Yongwei announced today.

The additional loans will total 2.65 billion yuan and 200 million U.S. dollars.

These loans will be used to upgrade equipment of industrial enterprises in the development zone, boost construction of joint ventures and develop export-oriented farm produce, Ma said.

The bank has adopted 10 concrete measures to assist the zone's development, which include establishing a bank branch at Pudong, offering real estate and other new services, and increasing loans.

Profits of the Pudong branch will be kept as development funds for the area. The bank will also organize interbank loans for key projects in Pudong, the bank president said.

### **Investment Bank Raises Foreign Loan Funds**

*OW0907075390 Beijing XINHUA in English  
0539 GMT 9 Jul 90*

[Text] Nanjing, July 9 (XINHUA)—The Investment Bank of China has been most successful in collecting foreign funds, introducing advanced technology and equipment, and promoting technical upgrading of domestic enterprises over the past eight years.

By the end of 1989, the bank has offered a total of 1.45 billion U.S. dollars in foreign loans to 1,122 projects across the country. And 532 of them have gone into operation and achieved good economic benefits.

At present, it has developed into a multi-functional bank engaging in the foreign exchange business in China.

It opened 30 branches in Beijing, Shanghai, Tianjin, Jiangsu, Guangdong and other coastal and economically

developed areas and 28 other subbranches across the country. It offers 16 service items.

The bank has also established agency relations with 105 banks in 30 countries and regions and built up links and cooperative relations with international financial organizations.

### **Shanghai Securities Hotline Begins Operation**

*OW0607002290 Beijing XINHUA in English  
1458 GMT 5 Jul 90*

[Text] Shanghai, July 5 (XINHUA)—China's first telephone line offering information on securities went into operation at the Shanghai International Securities Company, Ltd today.

The line operates from 09:00 A.M. to 07:30 P.M. every day and provides information on 12 types of bonds and securities available in Shanghai.

A customer can learn the opening level of share prices of that day after telling the operator his registered phone cipher code.

The line handled about 300 calls today, according to an operator.

More than 1.2 million urban residents in Shanghai have bought various kinds of shares and bonds. Some 2,700 establishments are engaged in securities operations, offering 30 kinds of securities with a total value of 2.5 billion yuan.

## **INDUSTRY**

### **Machinery, Electronics Ministry Views Management**

*OW2107115890 Beijing XINHUA in English  
0748 GMT 21 Jul 90*

[Text] Beijing, July 21 (XINHUA)—The Ministry of Machinery and Electronics Industry has decided to rectify the work-site order of the large and medium-sized enterprises under its administration over the next two to three years.

The move is designed to improve low enterprise management efficiency and product quality, reduce production costs and strengthen their competitiveness.

Investigations by the ministry show present low management levels in enterprises are mainly due to backward work-site management.

### **Industrial Output Reported for 13 Cities**

*HK2307141390 Beijing CEI Database in English  
23 Jul 90*

[Text] Beijing (CEI)—Following is a list of industrial output value in thirteen Chinese cities under central



planning in June 1990, released by the China State Statistical Bureau:

	(in 100 million yuan)		
	Total	Percent	Light industry over 6/89
Shenyang	99.80	-2.1	34.55
Dalian	79.35	2.7	29.05
Changchun	47.30	-4.8	18.44
Harbin	61.39	-5.0	28.76
Nanjing	97.07	4.8	29.63
Ningbo	79.08	-4.2	46.92
Xiamen	28.98	17.5	20.93
Qingdao	92.04	4.1	57.87
Wuhan	96.28	-2.6	41.34
Guangzhou	129.81	-2.5	89.12
Chongqing	89.95	-2.5	37.31
Chengdu	66.70	-3.8	27.61
Xian	53.69	-2.0	22.68

Note: (industrial output value is measured in 1980's constant yuan)

### January-June Output of Raw Materials

HK2307140390 Beijing CEI Database in English 23 Jul 90

[Text] Beijing (CEI)—Following is a list of the output volume of raw materials between January and June 1990, released by the China State Statistical Bureau:

Item	Unit	1-6/90	1-6/89
Iron ore	10,000 t	8,154.5	9,087.1
Pig iron	10,000 t	2,951.0	3,232.2
Steel	10,000 t	3,226.1	3,399.0
Rolled steel	10,000 t	2,518.35	2,698.36
Ferroalloy	10,000 t	107.20	119.59
Coke	10,000 t	2,480.67	2651.07
10 non-ferrous metals	10,000 t	108.89	116.37
Copper	10,000 t	27.52	27.96
Aluminium	10,000 t	40.34	42.17
Copper products	10,000 t	20.73	22.30
Aluminium products	10,000 t	16.07	19.70
Alumina	10,000 t	69.77	71.03
Sulphuric-iron ore	10,000 t	537.77	645.67
Phosphorus ore	10,000 t	967.13	1,013.96
Timber	10,000 c.m.	2,196	2,752
Artificial board	10,000 c.m.	106.50	157.26
Cement	10,000 t	9,345.4	11,675.2
Plate glass	10,000 c	3,974.66	4,589.25

Notes: c.m.—cubic meters; c—cases

## FOREIGN TRADE, INVESTMENT

### Policy Suggested To Promote Increased Border Trade

90CE0228A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 4, 11 Apr 90 pp 52-56

[Article by Xia Zhi (1115 5267), Research Office, CPC Committee for the Suburban District, Yancheng City, Jiangsu Province: "Reflections on Strategy To Develop Exports in Border Trade"]

### [Excerpt] D. Some Problems in Border Export Trade That Require Solution

From the above analysis we see that there is no problem as to the actual possibility of developing border trade exports and as to the prospective markets, but some macro-policy considerations and micro-conditions do not yet completely conform with the objective demands posed in the development of border trade exports on a large scale, and this would require further study and the exploration of ways to solve the problems.

1. A complete opening up of all borders, achieving a perfect system of border trade exports. The extent to which borders are opened and whether the organization of the foreign trade is sound and perfect are two facts of greatest relevance for the development of border trade exports. Presently, China's northern and western regions have not too many ports that have been opened up to foreign trade, only somewhat over 20, and these are primarily key cities in the three eastern provinces and in some parts of Xinjiang Province. The large expanse of the southwestern border provinces and autonomous regions, also Inner Mongolia, and a large part of Xinjiang have basically no, or extremely few ports that are officially open for trade, and it would therefore be difficult to expand their border trade. Not only that, the foreign trade system of organization and its expandable structure are inadequate, not completely rational, singularly structured, static in their patterns, and almost exclusively of the one type of the state trading corporations. Vitality and efficacy of the collectives and of the general public are not made use of to their fullest extent. In some places, there are too many and too harsh restrictions, and border trade is reduced to private/secret arrangements. This foreign trade is predominantly barter trade, and the proportion of pure exports is not large, so that little foreign exchange revenue is created. Opening up for border trade must, therefore, be expanded in scope in the interest of increasing exports of commodities. First, opening up must be effected over the whole border, and ports for border trade must be increased. Every border city, village, or township that shows promise should be accepted as a point open for border

trade, so as to facilitate people on both sides of the border to develop nearby border trade. Second, a sound operational system should be set up for border trade, primarily by the state trading corporation, but simultaneously also shared by collectives and the general public, so that border export trade will be developed at different levels and through many channels. Third, a more vigorous pattern of border trade should be developed, and favorable conditions should be created to allow gradual progress from the currently predominating barter trade to a larger proportion of pure exports, i.e. toward a development in which trade would predominate that would earn more foreign currency.

2. Drawing up policy measures of a preferential character, stimulating enthusiasm for border trade exports. As we look at domestic and foreign experiences we see that it is not sufficient for the development of border export trade to merely have one general set of policy measures. It is very necessary to introduce certain policy measures of a special nature for the opening up of regions along the coast, such as special zone formations, special zone policies, etc. I believe that it is completely possible to proceed in this manner also in certain western and northern border regions, because these western and northern regions are hinterland for the Eurasian continent, and are a huge bridge and link connecting Europe with Asia, and connecting China with foreign countries. Some regions, such as Tumen Dandong, Heihe, Suifenhe, Jiamusi of the Northeast, Yili, Tacheng, Alotai, Huoergosi of Xinjiang Province, Wanding and Ruili districts of Yunnan have the qualifications and the possibility, and there is even a necessity for them, to be constituted as "special border zones," in accordance with the policy for special zones. Doing so would possibly attract more foreign, also Hong Kong, Macao, and Taiwan businessmen to invest, set up factories, and trade in the border regions, to successfully take up the "three forms of processing and compensation trade," and thereby infuse new vitality into the development of border export trade. At the same time, more favorable treatment should be afforded all border trade regions and enterprises engaged in border export trade in the matter of sharing foreign exchange receipts from foreign trade and in matters of taxation. This would, on the one hand, stimulate the border regions and their enterprises to increase trade that is more predominantly direct export trade, and, on the other hand, could increase local financial resources, enhance the local economy, and bring prosperity to the border economies.

3. Increasing processing capacity in the border regions, establishing new industrial systems to serve foreign trade. The industrial base in China's southwestern and northeastern 6 provinces and autonomous regions is weak and backward, which is the largest restrictive factor inhibiting the development of border export trade. To resolve this problem, we have to rely on the joint efforts of the central authorities and the local authorities. In determining items for investment, the relevant departments and commissions of the central government

should give preference to the western regions, and as far as possible strengthen the state's industrial basis in the western regions. All western provinces and autonomous regions must also exert greater efforts. They should, on the one hand, establish more banking institutions at different levels, find more sources for construction funds, including funds raised from overseas sources, and enhance their own capacity for providing by themselves the lifeblood for these undertakings. At the same time, they should prepare themselves for some lean days, save up some capital to be used to start some suitable basic industries. On the other hand, they should exert efforts to improve conditions, improve the environment, provide favorable treatment, fully utilize foreign capital and foreign technologies, expand the "three forms of processing and one compensation trade" activities, develop ethnic industries, lay down an industrial foundation in the west, and thus enhance the material conditions for border export trade.

4. Strengthening the relations between the coastal region, the interior, and the border regions, bringing on a superior situation for the whole entity. In the course of pursuing a foreign-trade-oriented economic strategy in the coastal areas and of developing border export trade, it is necessary to correctly handle the relations between eastern and western regions, and between coastal regions and the interior. It is necessary to strengthen economic and technical contacts and cooperation, and to have the coastal regions make full use of the resources of the interior. It is necessary to reduce imports from abroad of comparatively high-priced materials, and to economize as far as possible in the use of some funds and of foreign exchange. It is necessary to support the western regions in the development of mines and other natural resources, to accelerate construction, and to have the districts in the interior continue in the well-planned development of their local natural resources. It is necessary to support as far as possible the large new industries in the coastal regions. The coastal regions must support the interior, especially the regions at the country's borders, by providing processing equipment, production techniques, qualified experts in science and technologies, and also by providing them with articles in short supply. They must help them develop their regional economies and industrial production, while the western regions must provide favorable conditions in a variety of ways, and must on their own initiative strive to obtain and accept the products of the advanced industries of the eastern coastal region. The eastern regions must use the western border regions as a springboard for the penetration by an ever increasing amount of their products into Western Asia, Eastern Europe, and other international markets. The western regions must open wide their doors and provide favorable facilities to allow the eastern industrial enterprises and their products to penetrate the large markets of Asia and Europe, having coastal areas, interior, and border regions merge into one entity to constitute one unified market for domestic and export trade.

5. Setting up a scientific information system, developing border export trade that has clear targets and particular

points of emphasis. It is impossible to move a single step in the development of modern commodity economy, especially a foreign-trade-oriented economy which comprises border trade exports, without a clear understanding of the general situation and without being in full command of all information. This makes it imperative to be awake to the need for information, as demanded by whatever the market situation may be. It is necessary to build up an information contingent of various ranks of a strength that is appropriate for the needs of border trade exports. This contingent is to be in charge of gathering border trade information, analyzing market conditions, forecasting future trends, and of providing prompt feedback of all economic and trade information to the relevant departments and enterprises. At the same time, we must gradually build up a highly sensitive information processing system. With a view toward future developments, we must consider increased importation of information science, improving the outmoded and backward state of our information processing system, and create favorable conditions for the gradual modernization of our information processing.

6. Attention to advertising and propaganda, making our products widely known. In the wake of developing border export trade operations, many new industrial products for daily use will enter the border regions, and to have them directly exported and earn foreign exchange, we must particularly strengthen advertising and propaganda. At the same time, we must improve our methods of advertising and propaganda. We must select the particular form of advertising to suit the peculiarities of the product concerned, make the product widely known, have people understand the product, become familiar with the product, and become eager to buy the product.

7. Strengthening macro-planning, coordination, management, and building up a new order of border export trade. Border trade must be conducted according to the progressive principles of first loosening controls and then tightening controls, loosening controls and at the same time tightening control, loosening controls without causing confusion, and controlling without strangling to death. Although import and export border trade is predominantly local trade, it is still part of the overall national trade operations. Its operational character and the methods by which it is conducted are on the whole the same as in all national trade, and the area involved, spreading in all directions, is very broad, but border import and export trade lacks authoritative regulations and a coordinating control mechanism. We must first of all establish an organ specially charged with border import and export trade at the state's ministry of foreign economic relations and trade, an organ specifically responsible for macro-planning of border import-export trade, for the study and formulation of relevant policy measures, and for the coordination of inter-regional and internal-external contradictions. Industrial-commercial departments and tax departments must, on the one hand, simplify procedures, broaden policies, and stimulate development of border export trade at all levels and

in all directions. On the other hand, they must strengthen the necessary guidance and supervisory controls. Local governments, state security departments, border defense departments, and industrial-commercial and tax departments must closely coordinate their activities, protect normal border trade order, prevent any harm that might result from border import-export trade for the interests of the state and the nationalities concerned, and must promote the development of border export trade in a normal and healthy manner.

### Hainan's Economic Development Viewed

HK2806033590 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 4, 20 Apr 90 pp 56-63, 55

[Article by Wang Wenchang (3769 2429 7022) of the Nationalities Economic Research Institute under the Central Nationalities Institute, and Meng Yanyan (1322 1693 3601) of the Policy Research Office, State Nationalities Affairs Commission; revised December 1989, edited by Zhang Tianxin (1728 1131 1800): "Hainan's Economic Development—Distribution of Interests and Economic Efficiency"]

[Text] When the complex spatial distribution of socio-economic relationships in Hainan's economic development is stripped down to its core, the basic form of the interests relationship which emerges is a situation of interests' distribution between the Han nationality and the minority nationalities. In the process of Hainan's economic development, we will have the choice as to whether the interests distribution is to be rational or otherwise. This choice will determine the course of the building of the Hainan special zone in which people have such fervent hopes.

### I. The Unity and Plurality of Interests Distribution in Hainan

#### A. Hopes and Reality

As Hainan is a relatively independent economic region, within the region there is a certain identity of interests. This is beyond doubt. In implementing the principle of unified economic development in Hainan, there is an objective demand that in the process of planning and concrete implementation, overall effects must be taken as the point of reference and there must be unified deployment and gradual development in stages. In this way, areas which see quick results and which have good bases will see priority development. However, unified arrangements face the problem of whether the distribution of overall structural interests is balanced or not. The more unbalanced the distribution of overall structural interests is, the less of a base there is for unified arrangements. Although Hainan has implemented unified special zone policies, there are still quite great disparities in interests distribution within the region. There is no relatively balanced interests distribution situation on the overall structural level. The hopes of unified development face the challenge of plural choices based on different interests entities. If the unified

arrangements process has as its cost harming the interests of a particular side, and the interests entity finds this price difficult to accept, it will be difficult to realize the arrangements.

#### B. The Spatial Structure of Interests Distribution

The plural situation in Hainan's interests distribution is mainly manifested as disparities between different interests structures such as those between nationality autonomous areas and areas which are not nationality autonomous areas, between "local" and "enclave" operations, and between areas where minority nationalities reside and areas where Han reside under nationality autonomous areas.

1. The disparities in the interests structures between nationality autonomous areas and areas which are not nationality autonomous areas.

On Hainan island, there are objectively two regions: The first comprises the one city and nine counties of Haikou, Qionghai, Wenchang, Qionghai, Wanning, Dingan, Tunchang, Chengmai, Lingao and Danxian, where people of the Han nationality are centered (that is, they are not nationality autonomous areas). The land area of these places constitutes 47.4 percent of the total of the island, while the population of these areas constitutes 66.35 percent of the island's total. The second comprises the two cities and seven counties of Sanya, Tongshi, Lingshui, Ledong, Changjiang, Baisha, Dongfang, Qiongzong and Baoting. These are areas where the minority nationality reside (of these, the seven counties are nationality autonomous counties and the two cities enjoy nationality autonomy treatment). The land area of these places is 52.6 percent of the island and the population comprises 33.65 percent of the island's total. In terms of the economic development process, certain disparities and different interests foci have already formed between these two regions. Prior to the establishment of Hainan as a province, the Hainan Administrative Region directly administered the one city and nine counties of the Han areas, while the seven counties and two cities (towns) of the nationality autonomous regions were relatively independent under the Li-Miao Autonomous Prefecture. special zone in which people have such fervent hopes. price difficult to accept, it will be difficult to realize the arrangements.

These are areas where the minority nationality reside (of these, the seven counties are nationality autonomous counties and the two cities enjoy nationality autonomy treatment). The land area of these places is 52.6 percent of the island and the population comprises 33.65 percent of the island's total. In terms of the economic development process, certain disparities and different interests foci have already formed between these two regions. Prior to the establishment of Hainan as a province, the Hainan Administrative Region directly administered the one city and nine counties of the Han areas, while the seven counties and two cities (towns) of the nationality autonomous regions were relatively independent under

the Li-Miao Autonomous Prefecture. Thus, there were quite major differences in terms of policy implementation, concrete economic development and management actions. The economic interests thereby formed were also different. (See Table 1)

**Table 1. Comparison of the Major Economic Indicators Between Han Areas and Nationality Autonomous Areas in 1986 (Excluding the Land Reclamation System)**

Item	Whole Island (million yuan)	Of which	
		Han Areas Percent	Nationality Autonomous Areas Percent
Gross Industrial and Agricultural Output Value	2,865.05	69.15	30.85
Total Amount of Fixed Investment in the Entire Society	1,374.91	71.51	28.49
Local Financial Income (1985)	316.12	71.61	28.39
Total Volume of Retail Sales	2,421.64	70.82	29.18
Gross Value of Exports	38.40	78.5	21.5

Note: The net per capita income of peasants was 504 yuan in the Han areas and 364 yuan in the minority nationality areas. Source of data: Compiled from information collected by authors (Same below)

2. The disparities between the different interests structures of "local" and "enclave" operations.

"Local" [Ben Tu 2609 0960] operations refers to areas and departments directly managed by the nationality autonomous area governments. "Enclave" [Fei Di 7378 0966] operations refers to enterprises, which are under the direct administration of the central government or provincial government, and which have been inserted into nationality autonomous areas. These include the land reclamation system and the Shilu iron mine. Although the activities of the "enclave" operations are carried out in minority nationality areas, and are intermixed with the economic activities of the minority nationality areas, they are entirely different operations and are independent of "local" interests. The situation where the "local" operations and the "enclave" operations have their own actual interests, has produced different interests foci and structures. The Hainan land reclamation system is a typical "enclave" operation which has been inserted in the minority nationality areas. Over the last 30 years, it has gradually developed into a closed self-sufficient system. Its major grassroots organizations include: 46 farms, 228 industrial enterprises, 54 rubber factories, 1,914 commercial enterprises and network points, 18 agricultural science and technology stations, 58 scientific and technological research organs, 61 middle schools, 287 primary schools, 46

hospitals, and 1514 medical treatment units. The economic activities of the land reclamation system are quite independent and, like the "local" operations has formed its own economic interests. This has formed differences in the economic interests structure. For example, under the land reclamation system, average per capita land area is 19.25 mu, while for the "local" operations, average per capita land area is 10.74 mu. The average annual per capita income of the staff and workers under the land reclamation system is 1,188 yuan, while the per capita income of all people under the system was 635 yuan. The average per capita net income of "local" peasants is only 364 yuan (1986). Of the sources of investment in fixed assets throughout the society, state investment constituted 27.19 percent, while for the land reclamation system, state investment was the source of investment for 46.05 percent of the fixed assets. It can be seen that the earnings of the staff and workers of the land reclamation system are much higher than those of "local" operations. Also, the land reclamation system maintains a closer economic relationship with the central authorities than do the "local" operations, and gains much more investment support from the state.

Of the "enclave" operations which have been inserted into the autonomous areas, apart from the land reclamation system, there are also other enterprises which are under the jurisdiction of the central authorities or the province. For example, in 1986, in the nationality autonomous areas there were 183 units which were under the central authorities, or were originally under Guangdong Province or the Hainan Administrative Region. These units had a total of 49,268 staff members and workers, of whom 2,694 or 5.47 percent were of minority nationalities. There were 21 industrial enterprises which were directly under the central authorities or originally under Guangdong Province or the Hainan Administrative Region. These constituted 5.57 percent of the total number of industrial enterprises. However, the output value of these enterprises constituted 36.2 percent of total industrial output value. There were also disparities with the incomes of staff and workers of other whole-people ownership units under different jurisdictions. (See Table 2)

**Table 2. Comparison of Wages of Staff and Workers of Whole-people Ownership Units Under Different Jurisdictions in 1986**

Enterprise	Average Annual Income of Workers (yuan)	Wage Index (Taking enterprises under the central government as 100)
Enterprises under central government	1,855.80	100
Enterprises under (originally Guangdong) Provincial Government	1,634.80	88.09
Enterprises Under the (originally Hainan) Administrative Region	1,583.90	85.35
Government Enterprises Under the Prefecture (originally Autonomous Prefecture)	1,450.20	78.14
City Enterprises	1,408.20	75.88
Enterprises at the County Level or Below	1,329.30	71.63

It can be seen that although the "enclave" operations have been inserted into the "local" nationality autonomous areas, they have drawn in only very few minority nationality staff and workers in the "local" areas, and that the benefit attainment and distribution of the "enclave" operations are quite independent.

3. The disparity between the different interests structures of areas where minority nationality people reside and areas where Han people reside under nationality autonomous areas.

In the historical process of the movement of nationalities, there have been formed, on Hainan island, areas where minority nationality people live and areas where Han people live. In the economic development process, these areas have different interests orientations and there are certain disparities between the economic income and quality of life of the residents. Let us take a representative survey of villages under the Lingshui Li Nationality Autonomous County in 1987 as an example. (See Table 3)

**Table 3. Representative Survey of Villages in the Lingshui Li Nationality Autonomous County**

Item	Lingguang	Juntian	Benhao	Guangpo	Yelin
Proportion which minority nationality population constitutes in total population (%)	100	99.79	99.63	49.77	15.19 minority
No. of households surveyed	10	10	10	10	10
Average per capita annual income (yuan)	324.81	369	498.78	664.07	1057.40
Average per capita annual expenses (yuan)	312.74	421.56	487.78	628.42	880.52
Average per capita net annual income (yuan)	248.36	270.87	305.33	427.16	729.63
Average per capita annual cash income (yuan)	183.06	235.10	253.84	448.55	755.64
Average per capita expenses on culture and livelihood service (yuan)	11.09	23.40	24.17	36.17	44.53

The above table reflects a trend which is worthy of attention. That is, the greater the proportion which minority nationality people constitute in a township or village, the smaller the per capita annual income.

In nationality autonomous areas, in general the Han people live in the towns, while the minority nationalities live in the villages. For example, in Lingcheng Town, the county seat of the Lingshui Li Nationality Autonomous County, the total population is 24,069 persons. Of these, the Han population constitutes 78.99 percent. Thus to a certain degree, the disparities between the different interests structures of the Han residential areas and the minority nationality residential areas under the nationality autonomous areas reflect the differences between the interests structures of urban areas and rural areas. Further, the majority of the urban population is non-agricultural population. For example, in Lingcheng Town, the non-agricultural population constitutes 88.37 percent of the total, while in the villages the population is mainly agricultural. Correspondingly, in the employment distribution of nationalities, the following situation has appeared: The Han nationality mainly engages in manufacturing industry and tertiary industry, while the minority nationalities mainly engage in agriculture. For example, in 1986, of the staff and workers in whole-people ownership enterprises in nationality autonomous areas of Hainan, the minority nationality workers only constituted 7.18 percent. Of these, those in the construction industry only comprised 3.17 percent of the total. Those in the communications, transport, and posts and telegraphs systems constituted only 6.48 percent of the total. The living environment in the urban areas is clearly superior to that in the rural areas, and the income of industrial staff and workers is much higher than that of the peasants. For example, in 1986, the per capita annual wage income of overall staff and workers was 1,296 yuan. If a family of four members had two members working as staff members or workers the per capita income of the family would have been 648 yuan. However, the net per capita income of peasants was only 364 yuan.

The different spatial levels which have been manifested by the interests distribution in Hainan's economic development and the interests differential between the minority nationalities and the Han nationality show that the characteristics of the Hainan special zone as an overall entity in economic development, and the unified base of interests distribution in the specific process of economic development are quite weak, while the plural base is quite deep.

### C. The Causes of the Plurality of Hainan's Interests Distribution

There are many diverse factors giving rise to the situation of plurality in Hainan's interests distribution. The major factors are as follows:

1. The natural geographic conditions of Hainan have formed a natural base for the plural situation of interests

distribution. With the mountain ranges as its center, the altitude of Hainan declines in the four directions, forming different spatial levels of a mountainous region, a hilly region, and flat areas [Tai Jie Di 0669 7132 0966] around the island. The ecosystem corresponds with the spatial levels around the island. The degree of economic development has an inverse relationship with the height of the natural geographic level above sea-level. In terms of the spatial levels of economic development, economic benefits and the quality of life of residents declines as the geographical level increases in height. This forms a spatial structure of interests distribution which corresponds with the geographical spatial levels.

2. In the course of development of Hainan's social history, the movement and spread of nationalities has been the social basis on which the plurality of interests distribution has been formed. Following the movement of the mainland population to Hainan and the movement of the Hainan population from the flat areas around the island to the mountain range heartland regions, this has formed a situation where the minority nationalities mainly live in the mountain regions and hilly regions centered on the mountain ranges, while the Han people are mainly centered on the flat areas around the island. Because the living environment of the minority nationalities and of the Han nationality are different, and their socioeconomic development conditions are different, it results in the interests orientation which has nationality interests as its structural entirety remaining very prominent.

3. In the course of the development of the Hainan economy, policies implemented around the island have provided the economic base giving rise to the plural situation of interests distribution. Economic development begins with the easy tasks and proceeds to the difficult and regional development proceeds from the plains to the mountains. This is a general pattern. Hainan's economic development is also proceeding like this. First comes the development of major ports and cities and the low-altitude areas and the development gradually moves towards the mountainous heartland. Seen from the angle of investment and output in the economic process, this is both rational and achieves obvious results. Today, the time-sequence of Hainan's economic development still basically holds to this policy, and the focal point of investment is the cities and towns ringing the island. Efforts are put into achieving great development in these areas and then, from these points, development spreads to broader areas. Beginning with the original policy choice, this development situation has manifested new spatial levels. This has inevitably resulted in the economic actions and benefits forming a corresponding interests spatial structure, strengthening both the geographical spatial levels in the economic development process and the interests differential between the spatial levels of distribution between nationalities.

## II. The Clash Between the Plural Interests Entities

### A. The Relative Independence of Interests Entities

The plural situation in the spatial structure of interests distribution in Hainan's economic development shows that in the unified entirety of the overall special zone, there objectively exist different interests entities which are relatively independent. These all form relatively independent interests structures with specific characteristics and cohesive inclination. Within the various interests entities, there exist quite tight relationships of interests dependence, which form corresponding management, distribution and regulatory mechanisms. The more they form specific interests units, the fuller are the manifestations of these characteristics of the interests entities. For example, the dividing line between villages and farms as unitary interests entities is very clear, and the process of formation and distribution of their interests is also quite independent.

The more complete and prominent an interests entity, the more obvious its independence from other interests entities. The relationships between different interests entities in the spatial structure of interests distribution are the most basic relationships in the process of regional development. The different forms of manifestation of these relationships has a deep-going influence on economic development. The plural interests entities which objectively exist in Hainan have, following the reform and opening up of the island, seen a strengthening of their consciousness as entities. Because of the obvious differences between them, and the daily increasing contrast in the new economic situation, the contradictions between the various interests entities have become more obvious daily.

### B. The Contradictions and Clashes Between Different Interests Entities

The contradictions and clashes between the different interests entities in the spatial structure of interests distribution in Hainan, are mainly manifested as two types:

1. Psychological contrast-type. This is where there is no direct interests structure gain-loss relationship between interests entities. However, the differential which appears in the formation and distribution of their various interests, shows a clear contrast. This influences people's psychological actions and forms a strong psychological contrast. This contradiction often occurs between different regional interests entities which do not have direct interests relationships, but which have obvious wealth differences. For example, in the new villages and towns in the Han residential areas under the Lingshui Autonomous County, the per capita income in 1988 was 970 yuan, with the per capita income of the labor force being 1990 yuan. Meanwhile, in the townships of the Li nationality under the Qiongzong Li-Miao Autonomous County, the per capita income was only 148 yuan. Although the two areas are very distant from each other and no direct gain-loss relationship

exists between them, the situation produces a strong psychological reaction both from the poor area and from observers.

Today, Hainan still has close to 1 million people living in poverty. Two-thirds of these people are situated in the Southern minority nationality areas. The per capita income of the Li nationality and Miao nationality peasants only constitutes one-third of per capita income of farmers in the Han nationality areas. The coincidence of the range of poverty and the distribution of the minority nationality population must attract people's attention.

2. Direct clash-type. This is where there is a direct interests gain-loss relationship between interests entities, and there is mutual restriction in the process of formation of their respective interests. If such situations are not handled properly they can produce a direct clash of interests. The direct clash-type relationship between interests entities is mainly manifested as contradictions between land reclamation enterprises and local townships and villages, and between coterminous areas where Han people live together and areas where minority nationalities live.

In the last few years, following economic reform and the gradual clarification of property rights relationships, the independence of the different interests entities of farms and villages has seen a corresponding strengthening. Land, as the basic space for subsistence and existence, has assumed a more obvious importance to the staff and workers of the farms and the peasants of the villages who both want to use it for farming. Thus, with land as the focal point of disputes, the contradictions between the farms under the land reclamation system and the surrounding villages and more particularly with surrounding minority nationality villages, have become daily more intense. Clashes have often resulted between the farms and the villages and frequently, on a variety of pretexts, the situations have been exacerbated. We found through our survey that such contradictions are extremely widespread.

There also exists interests contradictions between areas where Han nationality people live and coterminous areas where minority nationality people live. Seen in terms of the time-sequence of population inflow in these areas, in general the Han people came later, and thus they are seen as "outsiders". In the years of everyone eating from the big pot, the inflow of Han people generally did not give rise to bad feelings by the minority nationality masses. Actually, as the Han people flowing in had a slightly higher educational level and production technologies than the "local people", they were welcomed. However, following the implementation of the village production responsibility system and the gradual intensification of the demands for clarifying land-use rights, the interests contradiction between the "outsiders" and the "local people" has quietly been brewing. Added to this has been the fact that incoming Han people have gained quite high benefits in the agricultural production process, and this has gradually formed a rich-poor disparity between



themselves and the local minority nationality peasants. This has further intensified the dissatisfaction of local minority nationality peasants.

### C. The Effects of the Clashes Between the Plural Interests Entities on Economic Efficiency

The clashes between the plural interests entities has deep-going effects on the economic development of a region. In particular, when people hope for quite major, overall benefits in regional development, these clashes mercilessly weaken overall interests. The Nanping farm within the Lingshui Li Nationality Autonomous County has established a security force to prevent the theft of rubber and every year the costs of security management are over 200,000 yuan. Other farms have also done this. However, even with these security forces, they are unable to prevent the theft of rubber. Also, because the time and technology which the rubber thieves apply in tapping the rubber trees are not the standards, they greatly damage the normal growth of the rubber trees. This means that the life expectancy of the trees, as well as their output, both decline. There are also other people who deliberately cut down and destroy the rubber trees to use as firewood. As can be imagined, it is very difficult to establish a normal production sequence in such a situation, so economic efficiency really cannot be increased. Also, every time a clash of interests directly creates financial losses, it leaves psychological scars and has deep effects on the estrangement between nationalities and future economic activities.

A point of concern is that the plural structure in Hainan's interests distribution has still not attracted the attention of relevant decision-making departments. The interests distribution formed by ignoring this situation and advocating an organic whole clearly is not beneficial to the economic development of the minority nationality areas. This is because in a situation where interests distribution is very unbalanced and a base for a unified, organic whole is lacking, the more economic investment stresses the principle of "maximization of economic benefits", the more investment will inevitably flow towards the Han areas which already have a superior position. This result not only fails to achieve the goal of realizing a unified, organic whole but may make the plural interests entities more prominent. The disparities between the different interests entities are related to the distribution of nationalities and are also related to the history of migration of the various nationalities on Hainan island. Thus, it will be difficult for the Han nationality, which came later, which occupies the superior geographical environment and which is quite well off, to play a positive role as a "role model" in guiding efforts to struggle and forge ahead among the minority nationalities, who are still quite poverty stricken. In fact, such efforts are more likely to produce a negative effect and negative nationality sentiments. Thus, seen from this angle, the seeking of rational interests distribution on Hainan island is something which cannot be ignored.

### III. The Arrow of Time: The Weakening of Plurality and the Strengthening of a Unified, Organic Whole

Seen from the overall interests of Hainan's economic development, the plural situation of interests distribution must be weakened and the movement towards a unified, organic whole must be strengthened. However, this will involve a process and the beginning of this process is the acknowledgement that there are disparities between the plural interests entities.

Proceeding from the current realities and acknowledging the disparities between the different interests entities is not weakly yielding to the plural tendency of interests distribution. Rather, it is recognizing that the interests entities have been formed over a long period, have a certain base and have actually already formed quite independent interests movement mechanisms. Thus, we cannot use fine subjective wishes to replace objective facts. Rather, under the ideological guidance of strengthening the organic whole, we must seek new mechanisms for interest formation and distribution, so that a quite rational interests distribution is formed between different interests entities on Hainan and so that the actions of the various interests entities and the formation of interests break through the closed traditional system and enter a new movement locus. That is to say, the formation of interests must rely on activities of alliance and coordination between the various entities.

Different interests entities have different superior or inferior conditions in their interests formation and their operational processes. Thus, joint activities between different interests entities will form the following situation: The interests entities which occupy the superior position will have quite powerful influence in the economic development process as well as in choosing interests and grasping opportunities. In the process of joint operations, they will be in a quite high position (what is meant by high position is that they will be in an advantageous position in terms of comparative economic strength). Their economic and technological strengths will gradually spread and be transferred to the interests entities which are in inferior positions. In the common process of economic development, new interests will be formed and a base of common interests will be laid down. This process will gradually result in the collapse of the old interests norms under the traditional closed system, and the plural interests entities will conform to the new process of interests formation. In the economic development process in Hainan at present, conformity of the plural interests entities will result in the economic techniques and commodity economy concepts of the Han nationality areas and the "enclave" operations being effectively transferred to the minority nationality areas. This will mean that the two sides will see coordinated development and the source of the interests clashes will be eliminated. Thereby, the existing plural situation will be gradually weakened and a base will be laid down for a future, unified, organic whole.



1. From imbalance of interests distribution to relative balance.

The achieving of conformity of plural interests entities is also a process of readjustment of interests distribution. The general idea for the orientation in readjusting interests distribution should be a gradual movement from a situation of imbalance to a situation of relative balance. Although the situation of imbalance in Hainan's interests distribution manifests, to some degree, the natural choice of the economic development process, it is also related to the state providing priority investment and more opportunities to some regions. For example, state investment has clearly been more oriented towards the Han areas than towards the nationality autonomous areas and towards "enclave" operations than towards "local" operations. In the process of economic development of Hainan in the past, the different regional interests entities were quite independent and quite closed. This process had the imbalance of interests distribution and the continued strengthening of this imbalance as its base. Thus, seen in terms of the long-term development of Hainan's economy, joint activities by the different interests entities will gradually achieve a relative balance in interests distribution. The economic development strategies now being implemented and the plans for specific economic development regions should fully consider the development needs of the different regions and create for them equal development opportunities and conditions for fair competition.

In assessing whether the interests distribution in Hainan is balanced or otherwise, we should not only look at the unit area density of interests distribution, but also should look at the unit population density and comprehensive interests distribution. That is, we need to look at the per capita economic interests obtained. With this indicator as the appraisal measure, it will be possible to achieve a relative balance in the interests distribution in Hainan's economic development. This is because, in the southern minority nationality regions, the per capita natural resource figures are quite high. Following the deepening of Hainan's economic development, and the full utilization of natural resources, there will be a clear rise in economic earnings. The rate at which their economic earnings grow will at that time exceed that of the Han areas in the North. In this way, differentials in per capita earnings delineated by region will gradually diminish and this will certainly play a role in weakening regional interests differentials and strengthening a unified situation.

2. A flexible principle: Giving precedence to efficiency but also stressing relative fairness.

Joint activities between the different interests entities and the tendency towards relative balance in interests distribution will, in the economic process, inevitably lead to the dilemma of having to choose between efficiency and fairness. In the past, people usually placed fairness and efficiency in contradistinction and held that the two could not coexist. When they spoke of "fairness"

however, they were only referring to egalitarianism. However, egalitarianism and fairness actually cannot be equated. A system of egalitarian distribution of interests which cannot fully manifest the excellence or poor quality of economic activities violates the principle of fairness where one obtains more benefits for more work and more production. It is also not of benefit in raising labor efficiency. Seen in this way, fairness and efficiency are not mutually exclusive. Here, when we are referring to the dilemma between efficiency and fairness, it means that when different interests entities engage in joint activities and in the process by which interests are distributed, the interests entity in the superior position will naturally be the active one, while the interests entity in the inferior position will be relative passive. In the economic activities and the process of interests distribution between the two, there cannot be complete equality, and the specific situation of interests distribution directly determines the enthusiasm of the two sides for joint activities and the economic efficiency. As far as an economic region awaiting development is concerned, the interests distribution resulting from participation in a process of economic coordination through resources superiorities is clearly not as beneficial as the interests distribution gained by the other side, with strong economic and technical strengths, participating through its technological superiorities. Thus, an interests entity situated in the superior position and participating in joint activities in the economic process through reliance on superiorities in economic and technical strengths, will be objectively able to obtain greater benefits.

The problem is that the interests entity in the inferior position needs the assistance of the technological superiorities of the other side to initiate the exploitation of its own resource superiorities, and thereby to realize its own interests. The Hainan minority nationality area hope to see economic development and increase their overall interests as quickly as possible. Thus, they cannot ignore the economic and technical strengths already possessed by the Han nationality areas and the "enclave" operations. Only by achieving, in the process of joint activities, the combination of these economic and technical strengths with their own natural resources will it be possible for the minority nationality areas to raise labor productivity, natural resource utilization rates, market competitiveness and economic trail-blazing capabilities. This will be beneficial to both the overall interests of Hainan's economic development and the partial interests of the minority nationality areas. This effective deployment of social resources will be the basis for achieving quite high economic efficiency in the economic development process.

Thus, the following question arises: Should we, in interests distribution, make an appropriate concession so that external economic and technical skills can be injected from outside and thereby a quite high economic efficiency can be realized in the economic development of the minority nationality areas? Or do we maintain a quite closed situation and maintain the quite low economic efficiency of the minority nationality areas?

Clearly, maintaining the closed situation will not be beneficial to the economic development of the minority nationality areas. The result will be the exclusion from these regions of the economic and technical strengths of the Han areas, resulting in a greater disparity, in terms of economic strength, between the Han nationality areas and the minority nationality areas. The process of rights and interests realization will become more unfair over wider social spheres, and the plural interests entities will become more entrenched.

Thus, in the modern commodity economy process with its new competitive environment and new interests distribution, there is an objective demand that we discard the traditional view of fairness and establish a new view of fairness. That is, interests distribution must be subordinate to economic efficiency, and there should be a direct relationship between the contribution of economic elements in the economic process and the share in interests distribution. As the concept of fairness is in itself abstract and hazy, this new concept of fairness, as a flexible principle, can be concretely expressed as "giving precedence to efficiency, but also stressing relative fairness."

In accordance with the flexible principle of "giving precedence to efficiency, but also stressing relative fairness", in the process of joint activities between different interests entities in Hainan, the following situation will be formed: Following growth in the overall volume of economic interests in Hainan, in the near-term, under the precondition that both sides in joint operations see an increase in the benefits they obtain, the Han areas and the "enclave" operations will, through the economic and technical superiorities, obtain a relatively large share in benefits distribution, and the minority nationality areas will, through their resource superiority participation, obtain a relatively smaller share in interests distribution. Seen from the long-term, following the strengthening of the economic and technical capacities of the minority nationality areas and a reduction in their external reliance, there will be a gradual balancing in the economic strengths of the minority nationality areas and the Han nationality areas, there will be new readjustment of the distribution of interests, and a new fairness will be attained.

3. Countermeasures in stages. Achieving the weakening of the plurality of interests entities and a strengthening of a unified interests distribution in Hainan is something which has to be done in the natural process of economic development. However, this natural process in society is not solely dependent on nature. Rather, it includes the action trends and specific choices of people in economic activities. Thus, people can and should choose appropriate policies to promote the convergence of the plural interests entities. At the present stage, through measures which eliminate interests barriers and achieve the rational deployment of the productive forces elements, we should readjust Hainan's interests distribution and raise economic efficiency.

First, the interests barriers between the "enclave" operations and "local" operations should be eliminated, so as to promote interests fusion and joint economic activities between the two.

The first aspect of this is that the higher level organs, in respect of the industrial and mining enterprises which they operate in the minority nationality areas, should change the mode of operation from "insertion" to "fusion". The process of interests formation of the industrial and mining enterprises operated in the minority nationality areas by upper-level organs should not be independent from the overall interests of the minority nationality areas. Rather, it should, in the areas of employing workers, distribution of profits and protection of the environment, fully manifest the interests of the local nationality. The relationship between the upper-level organs and the localities could be handled through issuing shares to each side and distributing profits in accordance with shares held. In this way, the enterprises will be able to shake off the traditional administrative management and, as entities in the minority nationality area economy, be able to develop operations in accordance with economic patterns. These sort of enterprises will actually have attained the following position: They will be enterprises jointly formed by the upper-level organs and the localities, and administrative management will have a dual nature. Further, the economic operations will be developed in the overall movement of the minority nationality area economy, the interests formation of the enterprises will be consistent with the formation of the economic interests of the minority nationality area and will become a part of it. The structure of factors such as technology, resources, funds and labor which enterprises rely on for development will be formed through the optimization of diverse channels, while the interests distribution between the various factors will be decided in accordance with the size of their contribution to the process of formation of enterprise interests. In this way, the enterprises operated in minority nationality areas by upper-level organs will be able to realize quite well the combination of outside technology and funds with local resources and labor, which will result in the process of their interests formation and distribution merging with the process of the formation and distribution of local economic interests.

The second aspect of this is that the interests relationship between state-run farms and the villages should be changed from one of confrontation to one of accommodation. The self-contained, self-sufficient closed situation of state farms must be broken down and the state farms' superiorities in terms of funds, technology, organization and management should be brought into play. These superiorities should be spread to surrounding villages, economic alliance with surrounding villages should be strengthened and the unifying of the economic interests of the state-run farms and the surrounding villages should be promoted. At present, although, in name, management jurisdiction over the state-run farms has been handed down to the local government of

Hainan Province, the process of their interests formation and distribution is still independent of the local economic process. Thus, it is difficult for essential change to occur, and the old interests contradictions still exist. If we are to change this situation, we have to shift the interests of the farms onto the same track as the interests of the localities and thoroughly do away with the various interests barriers. A specific plan: the farms should be put under the unified operational management of the localities and the farms should act as the center in spreading economic development to the surrounding villages and, through the form of shares, farm-village alliances should be organized. This will result in the economic activities of the farm-village operations becoming more like those of enterprises, and their economic interests will form a unified, organic whole. After the farms are put under the management of the localities, the enterprise nature of the farms will not be weakened, and rather should be strengthened and spread to surrounding villages, so that the agricultural operations of the surrounding villages move towards enterprise-type, specialized operations. The difficult thing will be to find a point at which the interests of the two can be joined together. The objectively existing disparity in interests is the major obstacle to this process of fusion. Thus, there should be different treatment in accordance with the different specific situations of interests disparity between farms and villages. Also, there should be individual stipulation of the form and proportion of interests distribution in economic joint activities. The contribution of funds, technology, resources and labor by the farms and the surrounding villages could be converted to shares, and profits could be divided in accordance with shares held. Seen from the historical facts, there have been many successful examples of alliance between farms and villages in Hainan. For example, in 1969, the idea of "having the farms spur on the teams" was put forward, and Mumian Village of Baoting County under the former autonomous prefecture, merged with the nearby Nanping farm, becoming a small production unit of the farm. Through 20 years of development, the level of its production activities has clearly risen above that of the neighboring villages which did not merge with the farm. In 1988, the per capita income of this village was 613 yuan and the people of the village enjoyed the retirement benefits, publicly funded medical treatment and other welfare benefits enjoyed by the staff and workers of the farm. Both the farm and the village indicated that they were satisfied with the arrangement. After Mumian Village merged with Nanping Farm, the interests relationship between this production unit and the farm changed from a plural interests situation to a unified one. This fact shows that economic alliance between the farms and the surrounding villages is possible. At present, in the relationship between farms and villages in the Hainan minority nationality areas, their lands intertwine and there are often disputes over unclear land boundaries, while some of the mountain villages suffer from lack of technology and are unable to develop resources within their areas. This situation directly restricts the effective deployment of social

resources and the raising of economic efficiency. Thus, we need to realize new economic alliances between the farms and the villages, so that the farms, as major agricultural enterprises, can throw off the traditional closed model, speed the technical development, technical guidance, technical service and funds support of the surrounding villages and provide help in organizing management of economic operations, so as to achieve the unified processing and marketing of agricultural products. This will be of benefit to promoting enterprise-type economic operations by farm-villages and to promoting the unification of economic interests.

Second, it is necessary to realize the rational deployment of Hainan's production force elements and create quite equal development opportunities for both the minority nationality areas and the Han areas.

In the future process of Hainan's economic development, at the same time as giving priority investment to economic regions which have quite high economic efficiency, we should positively promote the minority nationality areas, and especially the economic development of the mountainous areas. We should increase the economic investment in these areas, so that the mountainous heartland inhabited by the minority nationality people sees necessary development. Although in unit area terms, they will not be able to get the same investment as the Han nationality areas along the coast, the per capita investment should not be less than in the Han areas along the coast.

In another respect, in the interests distribution of social funds investment and output in Hainan, we should stress "compensation for missed opportunities". What this means is that the interests disparity given rise to by the distribution of man-made development opportunities in the economic development process is reflected and compensated for in interests distribution. The putting forward of this idea is due to the fact that in Hainan's economic development, the Han areas obtain greater opportunities through technical, funds and environmental superiorities. Thus, the overall socioeconomic development and investment are also oriented towards these areas. If all of the benefits from this process go to the Han areas, it will be unfair to the minority areas which have few development opportunities. Further, the strengthening and expansion of the interests differential between the two regions will not be of benefit to the overall socioeconomic interests of Hainan. Thus, in the process of distribution of the interests formed in the Han areas, with their many development opportunities, it is necessary to appropriately consider the losses suffered by the minority nationality areas through missed opportunities. They should thus be given suitable compensation to manifest the principle of giving precedence to efficiency, while also stressing relative fairness.

#### Footnote

1. All references to "interests" in the text are to economic interests.

### **Closer Shenzhen-Hong Kong Economic Ties Foreseen**

90CE0131A Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 3, 23 Mar 90 pp 21-23

[Article by Zeng Quhong (2582 2575 1347), of the Shenzhen Municipal CPC Committee's Policy Research Office: "Shenzhen-Hong Kong Economic Cooperation in the 1990's"]

[Text] The last decade of this century, which we have just entered, will be a decade of greater challenges, a decade of unprecedentedly close and fruitful economic cooperation between Shenzhen and Hong Kong, and a decade in which the special economic zones will play an increasingly active role on the international economic stage. The Shenzhen SEZ will surely do well, despite the difficult international economic environment.

### **Bright Development Prospects**

The international economic environment is complicated in the early 1990's. The West continues to be in a developing cycle of economic peaks and troughs. The trade and financial deficits of the United States may hasten the arrival of an economic trough; under the pressure of protectionism and sharpening international competition, the exclusive EC "Integration Act" and North American "Free Trade Agreement" will all be fully implemented in this decade; and the developing countries will face a foreign debt repayment peak in the early 1990's. All this will have an impact on world economic development.

But the Chinese people have never been intimidated by difficulties. Essentially the prospects for the international economy, particularly that of Shenzhen and Hong Kong, are still very promising in this decade, and development, slow at first, will move full speed ahead from the middle of the decade on. Hong Kong's position as an international trade, shipping, communications, tourism, and financial center will be strengthened and expanded as never before with the addition of the Shenzhen SEZ in the latter part of the century. By the end of the decade, the economy of Shenzhen and Hong Kong will be of vital importance to the world economy and especially to the economic development of the Asian-Pacific region.

The above analysis is based mainly on the following: 1) Shenzhen and Hong Kong enjoy exceptional geographic advantages. Located at the center of the Asian-Pacific region, where the Northern Hemisphere joins the Southern Hemisphere and the East meets the West, Shenzhen and Hong Kong have fine, ice-free, deep-water harbors, modern facilities, and other human, geographic, and tourism resources. Through development and construction, Shenzhen has become a rather ideal shipping, trade, and tourist center. 2) Hong Kong has a policy of free trade, free entry and exit of capital and personnel,

and low taxes. Shenzhen has also adopted special economic policies and flexible measures, reformed its economic management system according to requirements of international practice, simplified procedures, and improved efficiency. Shenzhen and Hong Kong have fairly good, even some first-rate, tangible and intangible conditions for investment. In tangible conditions, large scale basic facilities have been and are continuing to be built. Shenzhen has already invested more than 17 billion yuan, and nine major projects are now under construction. Hong Kong, where the investment climate is already very good, has decided to implement yet another large-scale basic facilities construction plan and open a university of science and technology at a cost of HK\$127 billion. In addition, Hong Kong has rich experience in foreign trade, the ability to quickly adapt to changes, and highly efficient financial, communications, commercial, and other services, which have been built up over a long period of time. All this will effectively attract large amounts of international capital. 3) Shenzhen and Hong Kong are adjacent to and strongly backed by Mainland China. The state has provided all kinds of support, preferential treatment, and opportunities, particularly supplies of abundant and low-priced produce, oil crops, raw and semifinished materials, land, drinking water, and labor. There are also the broad markets and trade opportunities provided by the 1.1 billion people and the four modernizations, the modern and powerful national defense forces, and so on. All this will provide the most reliable guarantee for the economic stability, prosperity, and development of Shenzhen and Hong Kong. Take trade opportunities for example. Trade with Mainland China now tops the list of Hong Kong's trade with all countries and areas. In the past decade, Hong Kong's economy has grown at a high rate of 7.1 percent per year.

### **Broad Fields of Cooperation**

In the 1990's, economic cooperation and development between Shenzhen and Hong Kong will become broader in scope and more richly complementary and mutually benefitting in content.

**Basic Facilities.** Included will be sea, land, and air transportation, port facilities, and water and power supply projects.

**Air transportation:** The completion of the Shenzhen International Airport in the near future and its low cost will alleviate Hong Kong's pressing problem of air traffic jam. The Shenzhen Huangtian International Airport will be completed and put into operation in the first half of 1991. It will help Hong Kong in air transport, tourism, trade, and even economic development as a whole by saving time, lowering cost, and enhancing safety and reliability. At the same time, as the Shenzhen International Airport is only one hour's distance from Macao by hydrofoil, it can also directly help ease Macao's air traffic strains. In the meantime, Hong Kong's rapid economic development and especially the increasing

number of business travelers through Shenzhen to Hong Kong and Macao will also provide new opportunities for Shenzhen's development.

**Sea transportation:** Hong Kong has a fairly large sea transport capacity and modern loading and unloading facilities. However, berths and wharves are inadequate, and part of the cargoes are loaded and unloaded at sea. A decision has been made to build the No. 8 container wharf to the west of Angchuanzhou, but bids have not been invited yet. At Shenzhen's Yantian harbor, one of China's four major international transit deep-water harbors, five berths, including berths of the 10,000-ton class, have been completed. When the entire new harbor is completed and put into operation in 1992, it will have 45-50 berths and an annual cargo-handling capacity of 80 million tons, which will have a direct effect in relieving the tensions on Hong Kong's port facilities. In the meantime, Hong Kong, with its economic development, growing import, export, and entrepot trade, and first-class container wharf equipment, is providing Shenzhen with advanced experience in harbor construction.

**Port and land transportation:** Construction of the Guangzhou-Shenzhen Expressway, a joint investment by Guangdong, Shenzhen, and Hong Kong, will begin soon. The extension projects at Huanggang in Shenzhen and Luomazhou in Hong Kong, designed to link up with the new expressway, will also be started. This is one of the construction projects undertaken jointly by Shenzhen and Hong Kong which will pay rich dividends soon. Hong Kong's contributions to this project in designs and funds have been most valuable.

**Water and power supply facilities:** The nuclear power station and other power stations and the second phase Dongshen water supply project and other water supply facilities now under construction in Guangdong and Shenzhen will directly relieve the power and water shortages for residents as well as industry, business, and tourism in Shenzhen and Hong Kong and reduce production costs and nonproductive expenditures in Hong Kong.

**Land, Labor, Tourism, and Other Resources.** Shenzhen's cheap land and labor and rich tourism resources will be of far-reaching significance in relieving Hong Kong's shortages in these resources, encouraging Hong Kong industry to move toward the interior, and helping Hong Kong in upgrading its industries and readjusting its industrial structure. And, Hong Kong, while continuing its prosperity and development, increasing its international competitiveness, and attracting more foreign capital, will be of extremely great significance in making use of the land, labor, tourism, and other undeveloped resources in Shenzhen and Guangdong.

**Communications, Information, Finance, and Other Modern Services.** Much can be done by Hong Kong in these fields of cooperation with Shenzhen, because Hong Kong has already become a universally recognized international trade, shipping, finance, communications, and

information center, a "universal market" and "shopping paradise." Hong Kong's financial capital has topped HK\$1 trillion.

**Communications:** Hong Kong's highly advanced communications facilities have been further expanded to include telephoto transmissions, the wide use of car phones, and transoceanic televised conference systems. All this will provide quality services to Shenzhen in modernizing its communications services and economic development as a whole.

**Education.** Shenzhen, with its fairly well developed educational facilities, relying on the great number of qualified people from the interior, their relatively low charges, and especially their fine style, spirit, and morality, will provide all kinds of favorable conditions for improving the ideological and cultural quality of the people in Hong Kong.

#### Far-Reaching Influence

The extensive economic cooperation between Shenzhen and Hong Kong in the 1990's will have a profound impact on Hong Kong's stability and prosperity, the realization of China's economic goals, the normal economic operations in the Asian-Pacific region and the world as a whole, and the progress of mankind.

First, good economic cooperation between Shenzhen and Hong Kong is conducive to accelerating the readjustment of the industrial structure of both sides, increasing the competitiveness of products, and opening up new trade channels, and it is conducive to breaking through protectionism and promoting export and economic development.

Second, by promoting cooperation between Shenzhen and Hong Kong, maintaining and strengthening Hong Kong's position as an international shipping, trading, and financial center, we can rely on Hong Kong to develop our country's entrepot trade and attract more foreign investment.

Third, good economic cooperation between Shenzhen and Hong Kong and faster development of Shenzhen not only can help our country increase financial revenues and foreign exchange earnings, absorb technological and economic information through the window of Shenzhen, and develop foreign trade channels, but, more important, can help us gain experience from the Shenzhen experiment in reforming the economic and political system, particularly experience in effective management and administration by giving play to the regulatory role of the market under the guidance of state plans, and explore new ways to carry out socialist reforms and build socialism with Chinese characteristics.

### Necessary Development Conditions

As the development and success of Shenzhen and Hong Kong in the past, the economic development of Shenzhen and Hong Kong in the 1990's will also need good conditions and effective support.

1. Hong Kong must have a stable and sound social environment.

2. Shenzhen's investment climate and economic development should be raised to a new level, including the improvement of tangible and intangible conditions for investment, readjustment of the industrial structure, upgrading of industries, and so forth. On tangible conditions, besides basic facilities, it is necessary to improve other modern facilities, particularly communications, information, financial, tourism, and other services. On intangible conditions, it is necessary to really reform the economic system and organizations and strive to establish a new system which adheres to the socialist orientation and operates according to international practice to enable foreign businessmen to operate and manage according to current international practice and to guarantee the legitimate rights and interests of investors by law. At the same time, it is necessary to really improve the competitiveness of products, develop foreign trade channels, and expand exports. Continued efforts must be made to promote education to train and supply all kinds of qualified people for the interior as well as Hong Kong.

3. The state must give powerful support in policies. This is crucial. The rapid economic growth of Shenzhen and Hong Kong in the past decade was inseparable from the state's preferential policies. These policies should be further perfected and developed to meet the needs of the economic cooperation between Shenzhen and Hong Kong and the development of Shenzhen's export-oriented economy.

### Shenzhen Shatoujiao Zone To Boost Exports

*OW0507102990 Beijing XINHUA in English 0731 GMT 5 Jul 90*

[Text] Shenzhen, July 5 (XINHUA)—The Shenzhen Shatoujiao Industrial Zone in Guangdong Province will seal itself off from the interior of China in the second half of this year to simplify the import and export of goods by foreign-funded enterprises.

According to economists here, this is a key measure to make full use of foreign funds and boost exports.

The Shatoujiao Industrial Zone, bordering Hong Kong, follows international practice while offering an attractive package of services.

By the end of June, the zone had concluded investment contracts totalling 50 million U.S. dollars with foreign business people.

The zone has set up 40 foreign-funded enterprises, of which 14 generated gross output value of 90 million yuan

(about 19 million U.S. dollars) and exported 120 million Hong Kong dollars (about 15 million U.S. dollars) worth of goods in the first half of this year.

### Shenzhen To Tighten Stock Market Control

*90CE0254A Shenzhen SHENZHEN TEQU BAO in Chinese 29 May 90 p 1*

[Text] Yesterday the Shenzhen Municipal People's Government issued a public circular on "Tightening Stock Market Control To Ban Illegal Under-the-Counter Trade Outside the Market," the contents of which are reprinted below:

"As reforms and openness continue their development, Shenzhen's stock market has become increasingly active, thereby creating a positive effect which stimulates the economy and raises capital. To improve the control of Shenzhen's financial market, to maintain normal order in operation of the stock market, and to protect the legal rights of investors, the following particulars are announced:

1. The purchase or sale of any stock, the registration of stock transfer, and the posting of capital gains and dividends must be supported by resident identification cards or other valid documentary proof of legal person, and conducted by a stock brokerage agency approved by the People's Bank of China.

2. A stock brokerage agency will not handle stock registration and transfer, and posting of capital gains and dividends etc., for stocks not traded through a stock brokerage agency.

3. The Shenzhen Tequ [Special Zone] Stock Co., its North Renmin Road business office, the stock division of the Bank of China's Shenzhen International Trust and Advisory Company, the stock investment division of Shenzhen's International Trust and Investment Corporation, and other stock transaction units are designated as legal trading agents, and the sale and purchase of all stocks of value must be conducted by a trading agent authorized to do so.

4. The ban on illegal under-the-counter stock trading outside the market will be strictly enforced. Such activity, once uncovered, will be dealt with by the municipal business administration agencies, and according to circumstances, violators may (1) be given warning and indoctrination; (2) pay a penalty less than 50 percent of the stock's worth based on its market value at closing on the previous day, as determined by the Shenzhen branch of the People's Bank of China; or (3) have their stock confiscated.

5. Repeated offenders who are resistant to changing their ways, but are insistent on disturbing the public peace, are punished by public safety agencies in accordance with "Penalty Rules Used in the Management of Public

Safety in the People's Republic of China." Rule breakers committing crimes are referred to law enforcement agencies for further action.

6. This circular becomes effective on the day it is issued.

## LABOR

### Industrial Labor Productivity in April Cited

HK2906104990 Beijing CEI Database in English  
0912 GMT 29 Jun 90

[Text] Beijing (CEI)—Following is a list of substantial labor productivity of key industries in April 1990, released by CSICSC [China Statistics Information Consultancy Service Center]:

Industries	Unit	4/90	4/89
1.Coal			
a. Extraction	t/p	5.899	5.436
b. Mining	m/p	0.116	0.118
2.Metallurgical			
a.Iron-smelting	t/p	123	135
b.Open-hearth steel-smelting	t/p	49	52
c.Electric steelmaking	t/p	20	19
3.Textile			
a. Yarn	p/t	31.42	30.14
b. Cloth	p/ 10,000m	95.08	95.02
4.Paper making	t/p	2.09	2.32

## POPULATION

### Heightened Awareness of Population Pressures Urged

HK2107054390 Beijing ZHONGGUO QINGNIAN BAO  
in Chinese 22 Jun 90 p 1

[Article by Xu Shaoyu (7116 4801 7183): "Arousing the Whole Nation's Awareness of Population"]

[Text] On 1 July this year, China is to unfold its fourth national census, with a scope unprecedented in China as well as in the world. The current census will provide China's socioeconomic development with voluminous population statistics and information. More important is that it will arouse the whole nation's awareness of "population" and "per capita" awareness. Here the author should like to say something about his understanding on this issue.

#### The Past: Excessive Growth Rate

Since the founding of the PRC, China's population has increased at a rate of doubling every 38 years. By the end of 1949, China's population had reached 541.67 million, and by the end of 1989, it had grown to 11.1191 billion.

In the 40 years in between, the net population growth was 570 million, with an annual average growth rate of 18.14 percent. Reviewing history, China's annual average growth rate was kept at 0.25 percent in a span of 1,600 years of slave society; it was kept at 1.1 percent in the 2,300 years of feudal society; and it was 2.5 percent in the 110 years of semi-feudal, semi-colonial society. Whereas the population increase in the 40 years since the founding of the PRC was the accumulated total of 4,000 years since the earliest written record could be found.

When a comparison is drawn with Japan, we find that in the 30 years between 1950 and 1980, China's population growth rate was 78.83 percent, while Japan's was 39.16 percent. China's population growth rate was twice that of Japan.

#### The Present: A Severe Situation

In observing the population situation, we must view the population itself, but more important is the observation of interrelations among population, resources, environment, and development. The importance of the relationships among the four has been universally acknowledged by the international community. "Population" means the quantity, quality, and some of its major structures; "development" means the course of comprehension of the interrelated economic, social, and political changes. "Resources" include human, natural, and capital resources. Resources are generally regarded as an environmental aspect; therefore, "environment" is regarded as an ecological system, which provides resources and serves as a storehouse of waste resulting from the course of consumption and production. Starting from this concept, we may find the mutual effects among population and other factors.

For example, the contradiction between China's population growth rate and the ever-shrinking acreage of arable land today can be rather conspicuous. From the population angle, China is a country seriously short of land resources. Of the nation's 14.4 billion mu of territory, approximately 54 percent is infertile deserts, barren hills, and marshland, while arable land is diminishing. China's per capita arable land has been cut back from 2.7 mu in 1949 to 1.3 mu last year.

In 1989, China's gross grain output was 814.9 billion jin, a record high, but the per capita grain output was only 738 jin, 50 jin lower than 1984. Here, the net population growth of 73 million between 1984 and 1989 accounted for it.

Ecologically, China's shrinking forests, deteriorating land, expanded area going to sand, shrinking area of inland rivers and lakes, polluted environment, and grave water shortage are all related to its population.

At the same time, China's population growth has entered its "third wave." Girls born between 1963 and 1973 will continue to enter child-bearing age (the 21-29 age



bracket) between 1987 and 1997, and further expand the contradiction among population, environment, and development.

Other population problems such as unemployment go along with the rise in population and the proportion of adults. The number of the illiterate and semi-illiterate continues to account for 20 percent of the population, and calls for elevation of their educational background. The growing number of the aged calls for a solution to the problem of adequate pensions. These are all severe problems at present.

### The Future: Arduous Tasks

The importance of the interrelationships among population, resources, environment, and development began to rouse the attention of the international community in the early 1970's; China has also exerted great efforts in this area. However, we should see that the difficulties ahead are great, and the tasks arduous.

First, population control. It seems that it can be a rather arduous task to control China's population at 1.25 billion by the year 2000, and the current child-bearing peak will continue into 1997. Between 1986 and 1989, China's natural population growth rate was 14 percent. Moreover, the base will grow increasingly greater. With 1989 as the base, by the year 2000, the population will have reached 1.25 billion, and the average annual growth rate must be kept at 10.7 percent; should it be 14 percent, the population will be 1.296 billion. Therefore, parent-hood planning work can be very arduous.

Second, grain output increase. To realize the target of keeping the population at 1.25 billion by the year 2000, with a per capita grain output of 800 jin, the gross grain output must reach 1,000 billion jin, with a minimum average growth rate of 1.88 percent. Should the population exceed 1.25 billion, the per capita grain output of 800 jin would be very difficult.

And third, a solution to pensions for the aged. By the end of 1988, China's populace of retired workers and staff members was 15.11 million; it is estimated to be 25.83 million by the end of the year 2000. Retirement spending has increased by a wide margin over the past 10 years, growing from 1.73 billion yuan in 1978 to 32.07 billion yuan in 1988. This item will become a heavy burden to the state.

Here, we shall not go into details of other problems.

Population growth requires corresponding economic growth. That is the specific embodiment of the "per capita" concept. Calculations by relevant experts show that if the population should grow by one percent, a three-percent economic growth is required to maintain the original living standards. Therefore, arousing the whole nation's awareness of population and "per capita" awareness is not to be neglected in socioeconomic development, and an issue that everyone of us should pay attention to.

## TRANSPORTATION

### Plans Approved for New Beijing Railway Station

OW2207065090 Beijing XINHUA in English  
0606 GMT 22 Jul 90

[Text] Beijing, July 22 (XINHUA)—The construction plan for building a new railway station for passenger trains on the southwestern outskirts of Beijing has been adopted by the proper departments of the central government.

The present rail station, on the eastern edge of the city, was built more than 30 years ago and is already overcrowded. The planned station, 6.7 kilometers away from Tian'anmen Square—the center of Beijing, is designed to handle 90 pairs of passenger trains a day and 200,000 passengers.

After the completion of the new station, the passenger traffic capacity in Beijing will be raised by 50 percent.

Now preparations for the building of the new railway station are under way.

### Highway Planned in Xinjiang Desert

OW2107211190 Beijing XINHUA in English  
0754 GMT 21 Jul 90

[Text] Urumqi, July 21 (XINHUA)—China is building a highway into its largest desert, the Taklimakan Desert in the Xinjiang Uygur Autonomous Region.

The 345-kilometer highway, being built by the Taklimakan Oil Prospecting and Exploration Headquarters, will link the Lunnan Oil Exploration Zone in the Tarim Basin and the central Taklimakan Desert. Construction is expected to be completed within three years.

The 337,000-square-kilometer desert, known as the sea of death, is endowed with rich oil and gas resources.

### Kunming-Guiyang Electrified Railway Opens

OW1707204190 Beijing XINHUA in English  
1352 GMT 17 Jul 90

[Text] Kunming, July 17 (XINHUA)—A 635.6-km electrified railway linking Kunming, capital of Yunnan Province, and Guiyang, capital of Guizhou Province, began full operation today.

Kunming and Guiyang are located 1,891 and 1250 meters above sea level respectively.

Electrification of the railway began in 1982 with a total investment of 630 million yuan. The railway, a major trunk line in southwest China, passes many mountains and valleys on the Yunnan-Guizhou Plateau.



## AGRICULTURE

### Rural Capital Needed for Agricultural Investment

90CE0201A Beijing *NONGYE JINGJI WENTI*  
[PROBLEMS OF AGRICULTURAL ECONOMY]  
in Chinese No 4, 23 Apr 90 pp 20-25]

[Article by Rural Capital Task Force, Cooperative Economy Administration and Management Home Office, Ministry of Agriculture: "Channeling Rural Capital To Increase Agricultural Investment"]

[Text] Agricultural production, particularly grain production, has remained at a standstill ever since 1985, increasingly demonstrating clearly that without adequate agricultural investment, there is no way to support the need for normal growth of agricultural production. Insufficient capital investment has become the main factor inhibiting the long-term, stable development of the country's agricultural production. Increasing agricultural investment requires that the state establish policies that tilt investment toward agriculture. Both the party and government have taken actions in this regard. However, the reality of the country's current straitened financial circumstances limits large-scale state increase in investment in agriculture, but the huge capital potential existing in rural villages provides broad vistas for increasing investment in agriculture. Therefore, full tapping of the potential that rural capital

provides, channeling its investment in agriculture is the main way in which to increase investment in agriculture.

### 1. Realistic Judgment About the Investment of Rural Capital in Agricultural Production

The rural capital about which we are talking here is rural capital existing in various forms in community cooperative economy organizations, including village-organized collectives, township and town enterprises, and peasant households.

Economic system reform infused China's rural economic development with tremendous vitality, and created unprecedented financial wealth, thereby increasing enormously the amount of available rural capital. This capital has increased at an average 22.5 percent each year since 1980, so that by 1988 funds available in rural villages totaled 812.4 billion, five times the 1980 amount. (See Table 1). This steady increase in rural financial strength makes an increase in agricultural investment objectively feasible. However, a survey of actual investment of rural capital in agriculture during the past several years shows the following: The amount of investment of rural capital in agricultural production has not increased as the amount of capital available in rural villages has increased. On the contrary, as the amount of capital available in rural villages increased, an inverse investment of rural funds in agriculture occurred for a situation of absolute or relative decline.

Table 1. Rural Capital Available (100 Million Yuan)

Year	Available Capital	Including			
		Collective		Peasant Households	
		Rural Organizations	Township and Town Enterprises	Production Capital in Material Form	Monetary Funds
1980	1603	1380		13.6	209.4
1988	8124	853	2393	2810	2068

Note: Source of Data: 1) Ministry of Agriculture Cooperative Economy Administration and Management Home Office: "Statistical Data Show Receipts and Disbursements in the Rural Economy;" 2) Ministry of Agriculture, Township and Town Enterprise Department: "Township and Town Enterprise Statistical Data;" 3) State Statistical Bureau: "Precis of Rural Residents' Survey Data."

**(1) Steady Decline in Collective Investment in Agriculture; Sharp Decline in Use of Capital From Township and Town Enterprises to Support Agriculture** During the past several years, the rural collective economy has seen sustained, steady growth, and economic strength has increased. Statistics from the Ministry of Agriculture Cooperative Economy Administration and Management Home Office show collective economy revenues totaling 460.93 billion yuan in 1988, up 39 percent from 1984. However, collective investment of capital in agriculture

has become less and less. From 1982 to 1988, the amount of rural collective investment in fixed assets increased from 13.139 billion yuan to 45.674 billion yuan, a 3.48 fold increase. However, investment in fixed assets used in agriculture declined from 5.23 billion yuan to 4.29 billion yuan, including only 1.98 billion yuan in 1986. Investment in agricultural fixed assets as a percentage of total collective investment in fixed assets declined from 39.6 percent in 1982 to 9.4 percent in 1988 for a 30.2 percentage point decline (See Table 2).

Table 2. Rural Collective Investment in Agricultural Fixed Assets (100 Million Yuan)

Year	Amount of Investment in Fixed Assets	Percentage Increase or Decrease From Previous Year	Amount of Investment in Agricultural Fixed Assets	Percentage Increase or Decrease From Previous Year	Percentage Investment in Agricultural Fixed Assets
1982	131.39	—	52.32	—	39.6
1983	110.68	-15.7	33.37	-35.9	30.1
1984	174.83	58	28.99	-13.1	16.6

Table 2. Rural Collective Investment in Agricultural Fixed Assets (100 Million Yuan) (Continued)

Year	Amount of Investment in Fixed Assets	Percentage Increase or Decrease From Previous Year	Amount of Investment in Agricultural Fixed Assets	Percentage Increase or Decrease From Previous Year	Percentage Investment in Agricultural Fixed Assets
1985	199.23	14	20.73	-28.5	10.4
1986	245.35	23.1	19.87	-4.1	8.1
1987	365.71	49.1	42.52	114	11.6
1988	456.74	24.9	42.9	0.09	9.4

Note: Source of Data: State Statistical Bureau: *Chinese Statistical Yearbook*.

During this same period, use of township and town enterprise capital in support of agriculture declined sharply. In 1979, township and town enterprise funds used in support of agriculture totaled 4.19 billion yuan. By 1988, the amount declined to 1.16 billion yuan in a 71.6 percent decline. During the five years from 1979 through 1983, township and town enterprise funds used to support agriculture amounted to 16.5 billion yuan, or an average 3.3 billion yuan each year. During the five year period from 1984 through 1988, however, only 7.7 billion yuan was invested. This was just 1.54 billion yuan per year.

**(2) Peasant Household Investment in Agriculture Goes From Increase to Decrease.** After the institution of family output-related responsibility systems in rural villages, peasant households became more independent production and operating entities, and the amount of their available capital rose rapidly. In 1988, peasant households had 487.8 billion yuan on hand, 22 times the amount of 1980. As a percentage of all capital available in rural villages, peasant holdings rose from 14 percent in 1980 to 60 percent in 1988. Because peasant households had become the country's main producers of agricultural products, 95 percent of total grain output depending on peasant production, peasant households became the principal investors of capital in agriculture. The level of investment in agriculture was determined primarily by peasant households.

At the beginning of output-related contracting, peasants gained the right to contract directly for the use of land, the most fundamental means of production on which they relied for survival, and they expressed extremely great enthusiasm for investing in the land. Peasant investment in fixed assets used in agriculture increased from 2 billion yuan in 1981 to 13.973 billion yuan in 1984 for a sixfold increase within three years. However, after 1985, three serious tilts appeared clearly in peasant household capital investment, investment in agriculture, particularly in grain production, decreased rather than increased.

First, was the peasant household tilt toward expenditures for consumption, too swift a rise in consumption funds causing a decline in the percentage of production funds. Peasant investment in the purchase of productive fixed assets, which amounted to 13.973 billion yuan in 1984, declined to 7.181 billion yuan in 1986. Although such

investment increased during 1987 and 1988 by comparison with 1986, it was still 4.755 billion and 1.572 billion yuan less than in 1984. Peasant investment in the purchase of fixed productive assets as a percentage of total investment in fixed assets fell from 36.9 percent in 1984 to 14.3 percent in 1988. Moreover, during the period 1984 through 1988, peasant investment in house construction soared from 23.938 billion yuan to 74.122 billion yuan in a 3.1 fold increase. Investment in residential construction as a percentage of total investment in fixed assets rose from 63.1 percent to 85.7 percent. Comparison of 1987 with 1985 shows a 31.7 percent per capita increase in peasant household expenditures. This included a 22.9 percent per capita increase in cash payments for the purchase of the means of production, but per capita cash payments for the purchase of consumer goods increased 35.5 percent. The percentage of per capita cash payments increased from 58.8 percent in 1985 to 60.5 percent in 1987. Such a tilt toward consumption in the investment of capital took away a large amount of capital for production, and seriously impaired peasant households' ability to invest in production.

Second was the tilt of peasant household productive investment toward areas other than agriculture. Peasant household productive investment includes investment in agriculture and nonagricultural investment. As regards investment in fixed assets, the increase in peasant households investment in productive assets was mostly nonagricultural. According to State Statistical Bureau statistics, in 1988 original value of productive fixed assets was 1,033.03 yuan per peasant household, up 564.49 yuan from 1983. This included an original value increase of 240.67 yuan in fixed assets used in agriculture, or 42.6 percent of the total increase. Original value of fixed assets for use in other than agriculture was 323.82 yuan per peasant household, or 57.4 percent of the total increase. Original value of assets used in agriculture as a percentage of the original value of all productive fixed assets declined from 65.7 percent in 1983 to 53.1 percent in 1988. It should also be noted that the use of agricultural fixed assets for nonagricultural purposes is extremely serious. Comparison of 1988 with 1980 shows a 125,000 increase in the number of large- and medium-sized tractors, and a 4,084,000 increase in the number of small tractors, but the machine-cultivated land area decreased by 76,000 hectares.

In terms of investment of working capital, the percentage of peasant family production and operating expenditures for agriculture showed a declining trend. A State Statistical Bureau rural resident survey showed that agricultural production expenditures as a percentage of peasant

family production expenditures declined from 91.8 percent in 1984 to 86.2 percent in 1988.

It is true that the development of nonagricultural production is the road that must be taken to optimize the structure of rural industry in order to advance the complete flourishing of the rural economy. The increase in investment in nonagricultural industries is a heartening situation in development of the rural economy. It may be foreseen that with the evolution of a rural division of labor and division of industry, the percentage of nonagricultural investment will rise steadily. However, if the direction of peasant household investment of capital tilts too much toward nonagricultural industries, this will be bound to have an adverse effect on the expansion of agricultural reproduction or even make simple reproduction difficult to maintain. This cannot help but arouse serious attention.

Third is the tilt of peasant investment in agriculture toward nongrain crops agriculture. Within agriculture, peasant household investment of capital in grain production declined. According to survey data from Central Research Office permanent rural observation points, a comparison of peasant household investment in all industries within agriculture during 1986 as compared with 1984 showed the greatest decrease in investment was in grain crops, a decrease of 29.30 yuan per household, or an 8.7 percent decrease. Expenditure for grain crop production as a percentage of expenditure for agricultural production was 45.2 percent in 1984, declining to 39.4 percent in 1986. In 1987, investment in grain production increased by only 26 yuan per household over the previous year. After adjusting for increase in prices of the agricultural means of production, actual investment was less. According to a State Statistical Bureau report, peasant per capita cash payments for the purchase of chemical fertilizer and agricultural pesticide in 1988 increased 24.7 percent over the same period in 1987, but actual amounts bought decreased 7.3 and 8.2 percent respectively.

A survey analysis shows that except for some villages in which investment in grain crops increased simply because peasants had no choice but to grow grain inasmuch as secondary and tertiary industries and economic diversification was only slightly developed, investment in other rural areas decreased to one degree or another. In some economically developed areas, in particular, the situation was even more serious.

**(3) Reduction in Investment of Labor and the Accumulation of Labor in Agriculture.** The two production factors of capital and labor can, to a very great extent, be substituted one for the other in agricultural production. In countries having a large amount of land relative to population and plentiful capital, capital substitutes for labor in agricultural production, i.e., agricultural production is capital intensive. Ours is a country having a large population and little cultivated land with a scarcity of capital in which labor takes the place of capital, meaning that agricultural production is labor intensive. Not only

during the present stage, but for a long time to come, this will be the main feature of intensive farming. Therefore, investment of labor and the accumulation of labor in agriculture holds particularly important significance for the development of China's agricultural production. In recent years, however, simultaneous with decline in the investment of capital, the investment of labor in agriculture has also shown a trend toward decline. A look at the amount of labor invested in farming shows 265 man-days per peasant household in 1984, declining to 242 man-days in 1986. In 1987, the number of man-days invested in farming was 247 per household, only five man-days more than during the previous year and less than the 1984 level. In terms of quality of labor invested, in many places today, particularly in economically developed areas, much of the young, able-bodied workforce and the highly educated workforce have gone into secondary and tertiary industries, the quality of the workforce engaged in farming declining greatly.

The accumulation of labor in agriculture has declined even more. During the 1970's, every member of the agricultural workforce devoted a cumulative 30 to 40 man-days per year in the capital construction of agriculture. Since the Sixth 5-Year Plan, the amount has fallen to three or four days, and in some places the agricultural labor accumulation system has been virtually abolished.

**(4) Decline in Agricultural Rate of Accumulation for a Weakening of Ability To Expand Reproduction** The reduction of collective and peasant household investment in agriculture of recent years has caused a marked trend toward decline in an already fairly low rate of accumulation in the country's agriculture. From 1982 through 1988, the rate of accumulation in agriculture fell from 11.3 to 7.3 percent, including a 1.5 percentage point decline in the agricultural accumulation rate of rural collectives. The agricultural accumulation rate of peasant households declined 2.5 percentage points. In 1986, in particular, the agricultural accumulation rate was only 6.2 percent (See Table 3). On the basis of an 11.3 percent agricultural accumulation rate for 1982, the total accumulation in agriculture for the period 1984 through 1988 should have been 177.36 billion yuan, but was actually only 111.51 billion yuan, showing a 66 billion yuan reduction in agricultural accumulation during the past 5 years, a decline averaging more than 13 billion yuan per year. The decline in the agricultural accumulation rate led directly to a weakening of ability to expand reproduction and insufficient reserve strength for production. A representative survey conducted in Jinhua City, Zhejiang Province showed that during the period 1982 through 1984 following institution of output-related contracting, peasant investment in the expansion of reproduction amounted to between 80 and 100 yuan per mu per household, but during the period 1985 through 1987, the amount declined to approximately 20 yuan.

Table 3. Changes in Agricultural Accumulations 1980-1988 (100 Million Yuan)

Year	Rural Net Income	Agricultural Accumulations	Agricultural Accumulation Rate (%)	Including:			
				Collective Accumulations	Accumulation Rate (%)	Peasant Households Accumulations	Accumulation Rate (%)
1980	823.75	57.7	7.0	57.7	7.0		
1981	951	98.3	10.3	48.5	5.1	49.8	5.2
1982	1216.9	137.8	11.3	44.9	3.7	92.9	7.6
1983	2035.6	194.1	9.5	43.9	2.2	150.2	7.3
1984	2514.1	200.8	8.0	44.5	1.8	156.3	6.2
1985	2734.3	201.1	7.4	45.8	1.7	155.3	5.7
1986	3066.4	191.2	6.2	51.5	1.7	139.7	4.5
1987	3430.2	233.3	6.8	62.9	1.8	170.4	5.0
1988	3950.4	288.7	7.3	88.4	2.2	200.3	5.1

Note: 1) Agricultural accumulations means fixed assets and working capital used in agricultural production. The agricultural accumulation rate is the amount of agricultural accumulations as a percentage of net rural economic income. 2) The amount of village collective agricultural accumulations is figured on the basis of annual withholdings of public accumulation funds. Since a portion of public accumulation funds are used as investment in nonagricultural industries and for other expenditures, the actual amount of rural collective agricultural accumulation and the accumulation rates are smaller than shown in the table. 3) Source of data: Cooperative Economy Administration and Management Home Office, Ministry of Agriculture; "Statistical Data on Rural Economic Receipts and Expenditures."

The following are the main reasons for the occurrence of the above problems during the past several years. First is the year-by-year decline in both absolute returns and relative returns from agricultural production, making difficult the formation of a mechanism for inducing and stimulating investment in agriculture. Second is reduction of state investment in agriculture, which weakened the guiding role of state investment in the overall investment of rural capital in agricultural production. Third is the unsound mixing of the limitations of family farming with the community cooperative economy, no fine internal climate for investment in agriculture taking shape. Since this analysis has appeared widely in numerous publications, this article will not belabor it here.

## 2. Remedies for Channeling Rural Capital To Increase Investment in Agriculture

The possibility of channeling rural capital to increase investment in agriculture does exist. However, translating the huge capital potential lying idle in rural villages into increased investment in agriculture requires the formulation and readjustment of pertinent policies for building and perfecting a commensurate economic mechanism and system to create a fine climate for investment in agriculture.

**(1) Formulation of an Equitable Agricultural Products Procurement Price Policy So That Reasonable Comparative Returns May Be Obtained From Agricultural Production** The overly low prices paid for agricultural products is the main reason holding back increased peasant investment in agriculture during the past several years. Practice demonstrates that in the absence of the inducement of required economic returns, interim reliance on

administrative power to get collectives and peasants to invest in agriculture cannot endure for long, and making it work is also difficult. Therefore, formulation of an equitable agricultural products procurement price system is both a prerequisite and an irreplaceable policy measure for channeling rural capital into increased investment in agriculture.

Equitable agricultural product prices are both necessary for attaining steady and reasonable returns from agricultural production, for improving the cumulative investment capabilities of the peasants, and for stimulating peasant interest in increasing investment in agriculture. Equitable agricultural product prices also have to take account of the country's limited financial resources, and the reality of the large amount of accumulated capital needed for the industrialization of the country. The country must be assured of obtaining a certain accumulation of capital from agriculture through the operation of the "price scissors."

The miniscule upward readjustment of agricultural product prices during the past several years while rural prices of industrial wares, particularly the agricultural means of production, rose tremendously and has produced a trend toward a widening of the "price scissors" for agricultural products; thus, a fairly substantial upward readjustment of agricultural product procurement prices has to be carried out. According to our preliminary calculations, the "price scissors" between industrial and agricultural products stood at 77.1 billion yuan in 1984, and was 114 billion yuan in 1987. Had the 1987 "price scissors" remained at the 1984 level, the peasants could have received an additional 40 billion yuan from sales to the state of agricultural products. This was 16.5 percent of the 236.9 billion yuan of agricultural

product purchases for the year, meaning a 16.5 percent increase in prices of agricultural products. Thus, we recommend that the country increase overall procurement prices of agricultural products by between 15 and 20 percent to bring the "price scissors" generally back to the 1984 level.

The future agricultural products procurement price index should be directly linked to the rural industrial goods price index, particularly for the agricultural means of production. The state should clearly announce an annual readjustment of agricultural procurement prices, the rate of price increases being no less than the degree of rise in prices of agricultural means of production for the previous year. It should be pointed out that the agricultural means of production are not only supplied under state plan, but that peasants purchase a substantial portion (approximately 30 to 40 percent of total purchases) from rural country fair markets. Thus, when increases in prices of the agricultural means of production are figured, not only should the price rise index of state-owned businesses be taken into consideration, but the price rise index of the country fair market trade should also be included, weighted calculations of weighted figures made for actual peasant purchases.

**(2) Full Use of the Leading Role of State Capital, Local Capital, Foreign Investment and Credit Funds in Channeling Cooperative Economy Organization and Peasant Household Investment in Agriculture.** First, it is necessary to do more about state investment in agriculture. The state should equitably adjust its investment mix, establishing an investment policy that tilts toward agriculture. The state must firmly resolve to change its tendency toward steady decrease of investment in agriculture so that investment in the capital construction of agriculture during the period of improving the economic environment and restructuring the economic order increases to approximately eight percent of total national investment in capital construction, and so that investment during the Eighth 5-Year Plan revives to the 10.5 percent level of the Fifth 5-Year Plan period. Next, the proposal that expenditures for agriculture amount to 18 percent of state financial expenditures put forward in the Fourth Plenary Session of the 11th Party Central Committee, "Decisions on Various Problems in Improving the Development of Agriculture" should be put into effect. An "agricultural investment code" should be drawn up as quickly as possible, strong legal restraints being used to assure the consistency of national investment in agriculture.

Second, it is necessary to establish and perfect an agricultural development fund system to spur greater use of local financial resources in agriculture. In recent years, many places have established agricultural development fund systems, which spell out the purview and standards for the raising of capital for agriculture, and which concentrate capital for use in agriculture that is dispersed in individual systems, departments, and units. These systems perform overall planning taking all factors into account to increase investment in agriculture, and to

effectively insure consistency, incremental increases, and continuity in the supply of local capital to support agriculture. Places that have yet to establish an agricultural development fund system should set up such a system in accordance with requirements of State Council Document No. (80) 1988. Better use of agricultural development funds for investment in agriculture to increase returns from the use of the capital requires improvement of methods for managing and using the agricultural development fund. First, the agricultural development fund has to be used in conjunction with capital from cooperative economic organizations and peasant labor accumulations. Cooperative economic organizations and the peasantry must be spurred to make greater inputs of capital and animate labor. Second, a budget system must be instituted for the use of agricultural development funds, budgeting being used to determine the agricultural projects in which investment is to be made in a planned and focused way, avoiding rash investment. Budgeting, inspections, and supervision of how well investment in agriculture has been done must be used to insure that agricultural development funds intended for specific purposes are used for the intended purposes, agricultural investment thereby being made where it does most good. Third is better examination and validation of projects in which agricultural development funds are invested, and better performance of examinations prior to acceptance, and evaluation work to improve returns on investment.

Third is encouragement of outside investment to develop cooperative investment in agriculture that cuts across jurisdictional lines to connect one region with another, cities and the countryside, product processing enterprises, and rural cooperative economy organizations, or one peasant household and another. This is also an effective way in which to give impetus to increased investment of rural capital in agriculture. Provided the fulfillment of state agricultural product procurement quotas is assured, and in accordance with the principle of voluntary participation for mutual benefit, areas into which agricultural products such as grain, cotton, and edible oil are shipped may sign contracts with producing areas, the areas receiving the shipments investing in the building of production bases, or providing price subsidies, in return for which the producing areas provide them agricultural products. Economically developed areas may invest capital in undeveloped areas to organize the development of agricultural resources, or the development of agricultural products. Cities may invest in rural villages for the building of nonstaple food bases. Agricultural processing enterprises may invest directly in cooperative economy organizations on peasant households for the building of raw and processed materials production and supply relationships, etc.

Fourth is the establishment of credit policies that tilt toward agriculture to channel credit toward increased collective and peasant household investment in agriculture. Formerly, agricultural production loans accounted for approximately 20 percent of the loans of the Bank of

Agriculture and credit cooperatives, but in 1987 this fell to 12.8 percent. The reduction in agricultural production loans was, in essence, a reduction of peasant household and collective investment in agriculture. In the future, the Bank of Agriculture and credit cooperatives should give precedence to agricultural production loans, satisfying the needs of agricultural production first in planning the allocations of their funds. They should also provide preferential interest rates on agricultural loans in order to encourage and guide collectives and peasant households in increasing investment in agriculture.

**(3) Active Development of Capital Financing Within Cooperative Economy Organizations in the Building of a New Kind of Agricultural Investment Mechanism Within Cooperative Economy Organizations.** During the past several years, a capital financing movement within cooperative economy organizations, in which cooperative foundations are the main form, have become popular everywhere in the country. Incomplete statistics from 23 provinces, autonomous regions, and municipalities show that as of the end of 1988, nearly 15,000 townships (or towns), which is one-fourth the total number of townships (or towns) in these provinces, autonomous regions, and municipalities have begun such work, and they have collected 5.66 billion yuan in finance capital.

Financing from within cooperative economy organizations is a new method of rural collective capital control and use that has come into being following the institution of output-related contract responsibility systems. It concentrates under centralized control various kinds of dispersed and idle collective funds, including the collective accumulations of the former production teams and production brigades. It keeps track of and recovers funds owing that commune members and outside units have used for a long time without payment of compensation, and compensation collected for takeovers of cultivated land. It also makes use of the float to use public accumulation funds withheld during the current year, public welfare funds, and cooperative retirement funds as finance capital. It also pays for their use. This both better controls collective funds, and also makes more rational use of the funds.

Rural cooperative foundations are not financial organizations dealing in currency, but rather are collective capital management organs and capital service organizations of a cooperative nature. They employ the management of collective funds as a means of circulating temporarily idle collective capital in the form of loans to peasant households to help them develop production. Most of the interest received from this investment of capital is returned to the collective or to the peasants, thereby preserving and increasing the value of the collective capital in the course of its use for an increase in collective accumulations and the peasants' earnings.

Practice shows that capital financing within cooperative economic organizations not only improves and intensifies control over rural collective funds, insuring steady increase in collectively accumulated funds, but is also

extremely well suited to the seasonal need for agricultural production funds of the countless peasant households. Thus, a new way has been found to make use of collectively owned funds to solve peasant households' shortage of working capital for agricultural production, and to guide peasants in increasing investment in agriculture. Initial statistics from Hebei, Jilin, Henan, and Sichuan provinces alone show that capital financing in cooperative economy organizations during 1988 increased investment in agriculture by more than 500 million yuan. In Jilin Province, 20 percent of loan funds for grain production came from internal financing.

Today more than 30 billion yuan is available for financing in cooperative economy organizations. Therefore, financing from within cooperative economy organizations, channeling rural funds for increased investment in agriculture, offers very great potential. In order to give further impetus to the healthy development of internal financing, we suggest the following: First is clear-cut government policies affirming and advocating internal financing. Departments concerned should begin to formulate "Rural Cooperative Economy Internal Financing Regulations," codifying these efforts in law and regularizing them. Second, party and government units at all levels should actively encourage and help in getting internal financing underway, making it the main kind of agricultural investment mechanism for rural self-investment of funds, giving it attention as a strategic measure for increasing investment in agriculture to advance the development of agricultural production. Third, units concerned such as banks, credit cooperatives and government treasures should support and guide cooperative economy organizations in getting internal financing underway. Fourth, in launching internal financing, cooperative economy organizations should be permitted to convert peasant household pooled funds and pooled shares into production funds, and channel the consumption funds of the peasants, the better to organize the development of rural financial resources to improve agricultural production conditions, and to increase reserve strength for the development of agriculture.

**(4) Full Use of the Community Functions of Cooperative Economy Organizations For Better Organization, Control, Coordination, and Servicing of Agricultural Production.** Community cooperative economy organizations have more than 30 years experience in organizing the peasants to engage in agricultural production, and as owners of the collective means of production including land, they have the right to coordinate various economic benefit relationships within the cooperative economy. They can also control and service agricultural production as local circumstances warrant. One might say that they are the organizational support for the country's agricultural production, holding a position and role that no other organization can replace. Therefore, channeling rural capital to increase investment in agriculture requires full use of the advantages this organization enjoys.

First is the founding of a labor accumulation system in community cooperative economy organizations to guide the peasants in increasing their investment of labor in agriculture. Agricultural labor accumulation is both an input to match capital and is also an input that substitutes for capital. Full use must be made of the advantage that the country enjoys in having abundant rural labor, increase in the labor accumulation given attention as a strategic measure for the development of agricultural production. Community cooperative economy organizations must establish and perfect labor accumulation systems, drawing up plans as the capital construction of agriculture requires to make the cumulative number of man-days for which each peasant is responsible each year a part of agricultural contract agreements, making them an obligatory labor input for peasants in basic agricultural facilities that benefit all. Those unable to provide the number of cumulative man-days of labor are to pay money instead of labor. In addition, community cooperative economy organizations should help the government with the labor required for transportation required in the building of government financed agricultural construction projects.

Second is the building and perfection of a capital accumulation system in community cooperative economy organizations to strengthen the collective economy. Cooperative economy organizations must pool all contracting funds to be withheld and paid strictly in accordance with pertinent provisions of contract agreements, apportioning them in specific percentages as public accumulation funds, public welfare funds, and administrative fees. Public accumulation funds may not be spent for nonproductive purposes. An appropriate portion of public accumulation funds is to be dedicated for use as a fund for the building of agriculture. Cooperative economy organization accumulations are to be used to increase collective investment in agriculture in order to improve production services provided peasant households to arouse peasant interest in increasing investment in agriculture.

Third is institution of a land grading and a rewards and penalties system. Cooperative economy organizations are to grade land according to its geographic location and soil quality. After a peasant household has contracted the farming of a parcel of land, a bonus is to be provided for improving the grade, and penalties meted out for lowering the grade in order to spur the peasants to level the land and increase inputs of organic fertilizer to improve soil fertility.

Fourth is institution of "contracting that cuts both ways" to do a good job of cooperative economy organizations providing services for peasant households. Agricultural contracts are to stipulate both the contract obligations of peasant households and also spell out the services for which cooperative economy organizations are responsible, including providing various services before, during, and after production such as providing peasants with machine cultivation, drainage and irrigation, plant

protection, transportation, and the purchase of agricultural means of production, and marketing of agricultural products. By doing things that individual households cannot do themselves, or cannot do well, they can bring into full play the enthusiasm of peasant households for family farming and the superiority of services that the collective centrally provides.

Fifth, cooperative economy organizations should correctly employ ownership of the means of production, including land, using full respect for the desires of the peasants as a foundation for the development of farming on different scales. Cooperative economy organizations may coordinate the layout of peasants' crops, concentrating the growing of the same crop in one place in order to make full use of basic collective facilities, and to use collectively owned mechanical equipment effectively, gaining the benefits of scale from growing crops in single areas. Where economic conditions permit and the peasants are willing, cooperative economy organizations may appropriately adjust land contracting relationships to concentrate plots better in order to derive the economies of scale, in order to increase peasants' capacity to invest in the land, and in order to improve economic returns from agricultural production.

#### **Solution to Shortage of Procurement Funds**

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[Article by Zhang Shixue (1728 1102 1331), Gu Jiaping (7357 1367 1627), Liu Jianping (0491 1696 1627), and Wu Mingqi (0702 2494 0366); Gao Lu (7559 7216), responsible editor: "On the System-Related Shortage of Funds for the Procurement of Farm and Sideline Products and Solution for the Problem"]

[Text] The fund for the procurement of farm and sideline products is a kind of composite fund composed of bank credits, subsidies granted to grain enterprises for considerations of financial policy, and the own working capital of enterprises charged with the procurement of farm and sideline products. Since there is presently a serious deficiency in the effective supply of funds of this nature (the "effective supply" refers here to actual money truly made available by the mentioned departments for procurements), and since, in addition, funds which are provided in this composite form often become illusory and blocked in the "import" and "operational" sectors, the shortage of funds provided for procurements has become even more critical. These "shortages" have therefore attracted widest attention among all sectors of society and are also the cause of much thought and inquiry among theorists and among persons in actual practice.

The contrariness and complexity of the system—the deeper cause for the shortages of funds for procurement of farm and sideline products.

1. Administering loan funds by a system that shows a "city bias" is the primary cause for the shortage of funds



for procurement of farm and sideline products. When the loan management system was revised in 1984, no consideration was given to the special peculiarities of the agricultural banks, especially no consideration to the policy-dictated task taken on by the agricultural banks of providing funds for the procurement of farm and sideline products, and the agricultural banks were therefore treated the same as the other specialized banks in fund planning, loan policies, and in macro-management, causing the system of loan fund management to show right from the beginning a distinct "city bias." It is precisely this system that is cause not only for a "congenital deficiency" of procurement funds for farm and sideline products, but also cause for unfavorable conditions for any increases in such funds during "postnatal developments." The "congenital deficiency" refers to the gap in procurement funds that occurred when the loan management system was changed and when the grain loan business was changed in 1985 from an agency arrangement to arrangements to be taken care of by the relevant parties themselves. This gap showed in the basic figure of procurement loans at the end of 1984, because at that time no special funds were particularly designated for use in procurements, so that the loans that had been increased in that year were used to even out the "temporal difference" between the money supply for procurements and the recall of credits (mainly recovering agricultural loans and transfer deposits of credit cooperatives). The statement that "postnatal developments" were detrimental to increases in effective supplies of procurement funds means that in the matter of funds for the procurement of farm and sideline products the transformation from agency operations to arrangements to be taken care of by the relevant parties themselves occurred in 1985 almost simultaneously with the tightening in the money market. Although granting loans for procurement of farm and sideline products was not explicitly made part of the tightening of money supplies, in actual operations the agricultural banks were repeatedly called upon to effect "self-balancing," and, furthermore, in undertaking macro-control tasks the same demands were made on them as on the other specialized banks. The result was not only a drying up of the flow from outside sources of funds needed in increasing amounts for procurement of farm and sideline products, but also a crippling of internal sources for supplementary amounts from within the agricultural banks, thus objectively aggravating the shortage of funds for procurement of farm and sideline products.

2. The "regional contracting" system of financial management is a contributing factor for the system-related shortage in funds for the procurement of farm and sideline products. Management of public finance began in 1985 to "divide up tax categories, appraise and determine revenue and expenditures, and to contract at different administrative levels." The new system, apart from clearly subdividing financial revenue and expenditures for the different administrative levels, at the same time prescribed that "regions with larger revenue may have larger expenditure, those with less revenue must

spend less, and all must strive to achieve by themselves a balance between their revenue and expenditure." The financial system of "regional contracting" stimulated the appetite of regional governments and finance authorities for larger local revenue and caused them to show a bias toward concentrating their limited revenue in industrial departments that could easily enhance local economic strength. They would then neglect subsidizing enterprises which should have been granted subsidies as demanded by policy. This was most conspicuously showing up in the policy-decreed subsidies due to grain procuring enterprises.

3. The system of "government protected" purchasing and selling of farm and sideline products is the cause of a serious lack of enthusiasm of procurement entities to enhance their own financial capacities, and this is further aggravating the shortage of funds for the procurement of farm and sideline products.

4. The fund settlement system between the associated banks of this "composite organization" obstructs the turnover of funds from the sales of farm and sideline products. This is another factor that aggravates the system-related shortage of procurement funds for farm and sideline products. In the economic dealings between the banks, the system of "separation of city and countryside," currently carried out by the specialized banks, results in a cutting off of one end from the other end in the grain procurement system (the basic-level procurement enterprises have their accounts with the Agriculture Bank, the procurement, processing, storage, and transportation enterprises of county and higher rank have their accounts with the Industrial and Commercial Bank), and this makes it possible for other banks to delay, keep back, and seize for own use procurement funds of the agricultural banks.

**Restructuring the system—The fundamental way out from the state of fund shortages for procurement of farm and sideline products.**

Above analysis clearly shows that the shortage of funds for the procurement of farm and sideline products is due to the system that is currently in effect. It is therefore a matter of great urgency to restructure the system of managing procurement funds for farm and sideline products, as a way to escape the "shortages" and eliminate the issue of "IOU's" instead of paying cash, and as a way to promote the continued, stable, and harmonious development of agriculture.

Considering the fact that supply, use, and management of funds for the procurement of farm and sideline products involves many different departments, restructuring the system must, therefore, proceed according to one fundamental principle. That principle must be that, based on a review of the experiences and lessons gained in the operation of the current system, and with a further elucidation of the rights and obligations of the Central Bank, the Agriculture Bank, the financial authorities,



and the procurement enterprises, we set up a harmonious, standardized system that can guarantee a distinct increase in the total effective supply of funds for the procurement of farm and sideline products. We must then essentially guarantee the elimination of the state of shortages of funds for the procurement of farm and sideline products. By starting out from this principle, restructuring the system of managing procurement funds for farm and sideline products may be summed up in "working out a unified plan, differentiating appropriately in the supply of funds, having the People's Bank make up any gaps, and concentrating management and use of these funds."

1. *Working out a unified plan.* Well aware of the special comprehensive characteristics of plans for procurement funds for farm and sideline products, we may take the county as unit and have the government entrust the agricultural banks to compile, together with agricultural, grain, cotton, and other such departments, uniform plans with complementing estimates of the needed supply of procurement funds for farm and sideline products, based on the need for procurement funds for farm and sideline products during the past few years, and also based on the production of grain, cotton, oil-bearing crops, etc. during the year in question. These plans will be passed on through channels, combined into one general report, and submitted to the head office of the Agriculture Bank. After plans have been approved by the head office, the various branch banks will then transmit to the sub-branches the approved plans for their supply and demand of procurement funds for farm and sideline products.

2. *Appropriate differentiation in the supply of funds.* Based on the plan for procurement funds for farm and sideline products worked out by the Agriculture Bank together with the relevant departments, the Agriculture Bank shall be responsible to provide the sales revenue for that part by which farm and sideline products in storage have been reduced, and may use a certain proportion of the increases in deposits for the procurement of farm and sideline products. The actual amounts provided as policy-decreed subsidies by the financial departments must be made available promptly and in full amounts at the level at which such subsidy is to be granted. In view of the problem with the current way of fund subsidies, namely their being passed from higher financial authority to lower financial authority, and each level through which the subsidy passes deducting some percentage, it should be possible to reform the current one-line allocation system of the finance authorities and institute a "dual-line" management. In this way the responsible finance department that appropriates the subsidy would hand on only a plan to the transmitting finance department, and the actual funds would be directly transferred to the agricultural bank at its administrative level, and the agricultural bank, together with the finance department, would then transfer the subsidy amount directly to the grain department according to what is actually due as subsidy. Subsidies that are

required by policy to be made by the local authorities to cover operational losses must be included in the budgets of the local finance authorities as items that are guaranteed of fulfillment, and must not be left in abeyance for any reason or under any pretext. It may be considered at the same time to establish a special reserve fund for farm and sideline products. At whatever level such is established, the finance authority of that level should work out arrangements for it. It could also be arranged that a certain proportion of the profits turned over annually by the agricultural banks to the treasury be retained as reserve for farm and sideline products, to be gradually built up into a complete and sufficient reserve fund. Procurement enterprises shall replenish their own working funds according to a certain predetermined proportion of every year's reduced amount of losses or earned profits. It should furthermore be prescribed that enterprises shall, according to a certain proportion, reduce settlement funds and reactivate goods in storage, so as to increase the effective supply of procurement funds for farm and sideline products.

3. *Gaps to be made up by the People's Bank.* Considering the current state and actual circumstances in the supply of procurement funds for farm and sideline products, the head office of the People's Bank should include increased amounts of procurement funds for farm and sideline products in its credit expenditure plan. It may be possible here, after strict examination of the plan for procurement funds for farm and sideline products prepared by the Agriculture Bank, to make deductions in the amounts demanded by the Agriculture Bank, the finance authorities, and the enterprises, while any still remaining gap should be made up by the People's Bank.

4. *Concentrating management and use, which means concentrating all the various above-mentioned funds at the Agriculture Bank.* Grain enterprises have set up two special accounts with the Agriculture Bank, namely one account for the subsidies received from the treasury and one account for procurement funds raised by the enterprises themselves. The agriculture bank have opened two special accounts with the People's Bank branches at their locations: one account for procurement funds derived from either the proportion by which procurement credits were reduced or derived from new deposits; one account for new loans from the People's Bank. All funds are managed as specific accounts and are issued under the control of the agricultural banks in accordance with progress in ongoing procurements. As to the proportion by which farm and sideline products in storage have been reduced, this should first of all result in a reduction of new loans from the People's Bank and of procurement credits from the agricultural banks, and funds derived from the reduction of goods in storage should be deposited and shall be considered as source for funds for next year's procurements. Prior to the procurement-directed use of these funds, they may be used for other short-term expenditures, but on the condition that they will be fully available when the next procurement season shall arrive.

### Forestry Minister Urges Higher Forest Grain Output

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27 Jun 90 p 1

["Dispatch" by reporter Xiao Demu (5135 1795 2606): "Forestry Minister Gao Dezhan Urges Forestry Departments To Engage in Grain, Cotton, Edible Oil Production"]

[Text] Forestry must also engage in grain, cotton, and edible oil production, and make contributions to solving the conflict of densely populated land and a shortage of grain, cotton, and edible oil in China. These were the words of Minister of Forestry Gao Dezhan during a recent interview with reporters.

The so-called production of grain, cotton, and edible oil by the Forestry Ministry means that forestry departments must also pay attention to the development of woody grains, woody cotton, and woody oils. Woody grains include Chinese chestnut, Chinese date, persimmon, walnut, and ginkgo, etc.; woody cotton includes oak and mulberry, etc.; woody oils include the tea-oil tree, oil palm, Chinese olive, shiny-leaved yellowhorn, etc. Most of the woody grains can be eaten without being processed, and many woody oils are edible when directly extracted from tree seeds; only oak and mulberry must wait until their leaves can feed the silkworms, which produce silk. At present, the production of woody grain, cotton, and oil in China is in a natural state, and even those that have been developed, like tea-oil trees, have already degenerated and become low-yielding. Today, when the conflict between supply and demand of grain, cotton, and oil in China is conspicuous, it is more important to develop woody grain, cotton, and oil in a planned way and with emphasis.

According to the introduction given by Ministry of Forestry comrades, if the currently available 15 million mu of woody grain resources are improved by regular technology, and if management is strengthened, the output of a single crop can increase by 200 to 500 percent, and the total annual output can reach 5.4 million tons. If calculated on the basis of calories, it is equal to an increase of 1.24 tons of grain; if calculated on the basis that each mu of field on a hill produces 200 kg of wheat, it is equal to an expansion of 6.2 million mu of farmland; if calculated on the basis that each urban resident needs 180 kg of grain per year, it supplies grains for 6.8 million urban residents. If the current 40 million mu of land under tea-oil trees with comparatively good conditions are improved and renewed, and if proper management is added, the annual output per mu can increase from the current 2 kg to 15 kg. In this way, annual output of tea oil in the whole country can surpass 600 million kg, which can solve the problem of supply of edible oil to 200 million people, which is equal to saving 20 million mu of land for cultivation of tea-oil trees per year. According to crude statistics, among China's woody grains, more than 90 kinds of trees have fruits

that contain over 20 percent starch, but less than 10 kinds of these trees have been developed or planted. For example, Chinese chestnut, Chinese date, persimmon, and ginkgo have very high nutritional and economic value; they are excellent fruits on the one hand, capable of substituting grain on the other, in addition to being important materials for export. As for woody cotton, in the north, there are 12.68 million mu of land that contain oak trees; in the south, 5.17 million mu of land are mulberry orchards. There are more than 300 kinds of trees with woody oil materials with oil surpassing 20 percent, and the absolute majority of them have not yet been developed. According to a briefing given by the Office of Forest Economics of the Ministry of Forestry, more than 1 billion mu of slopes and hills suitable for forestry have not been used, and selecting some of these lands with better conditions to develop woody grain, cotton, oil, is equal to increasing farmland, grain, cotton, oil, and is more beneficial than to develop these lands just for grain.

According to information, as the first important step in the design by the Ministry of Forestry to develop woody grain, cotton, oil, this year's experimental plots of improving low-yielding tea-oil trees in south China will begin to be implemented. This time the project involves 40 counties in seven provinces and autonomous regions including Hunan, Hubei, Jiangxi, Guangdong, Guangxi, Zhejiang, and Fujian. The state and localities have invested a total of 60 million yuan and planned to accomplish the improvement of 1 million mu of land under low-yielding tea-oil trees and to secure some results in four or five years. After 1995, the project will produce an additional 10 million to 12.5 million kg of edible oil for the state, and it is predicted that an additional annual income of 60-70 million yuan is available. Moreover, with the comprehensive utilization of intercropping in the forest land, income from apiculture, the peels of the fruits of tea-oil trees, and tea-oil cakes, etc., the economic returns will even be greater.

### Tobacco Industry Registers 14 Percent Growth

HK2007023490 Beijing CHINA DAILY in English  
20 Jul 90 p 2

[By staff reporter Huang Xiang]

[Text] China's tobacco industry, apparently unaffected by the nationwide market slump, turned over to the State record high profits of 12.56 billion yuan (\$2.67 billion) during the first half of this year.

The figure represents a 14.3 percent rise over the same period last year and is 12 percent above the State target, CHINA DAILY learned yesterday.

Cigarette output amounted to 3.81 billion cartons during the six months while sales reached 3.89 billion cartons, 7 percent more than the same period in 1989, according to Liu Zhiguang, vice-president of the China National Tobacco Corporation.

The industry plans to produce 7.5 billion cartons of cigarettes this year, turning in 27 billion yuan (\$5.7 billion) in profits and taxes to the State Treasury.

The corporation has also enjoyed booming sales overseas during the first two quarters of this year.

The industry earned \$172 million in tobacco leaf and cigarette exports by the end of June, Liu said.

Tobacco leaf exports reached an all-time high of 17,000 tons while cigarette sales overseas also saw a record increase of 52 percent to 48.2 million cartons during the six months.

The corporation's target for exports has been set at \$250 million.

Liu attributed the "satisfactory situation in and out of the country" to more quality cigarettes available, bigger sales in rural areas and the effective screening of the market.

The industry produced 1 billion cartons of first grade cigarettes from January to June, up 24 percent over the same period last year.

Chinese-made cigarettes are grouped in five grades and tobacco leaf in fifteen grades.

According to Liu, the booming sales owe much to the corporation's effort to develop the rural market which consumes a large part of low grade cigarettes.

He said the corporation dispatched 24 groups earlier this year to oversee tobacco and cigarette production and trade in the country's major tobacco and cigarette provinces.

Liu highly regarded the year's nationwide crackdowns on illegal sales by private businesses, rampant official corruption and cigarette smuggling.

### **Animal Husbandry Growing at 'Brisk Pace'**

OW2607062190 Beijing XINHUA in English  
0559 GMT 26 Jul 90

[Text] Beijing, July 26 (XINHUA)—China's animal husbandry showed a brisk pace of development in the first half of this year.

According to statistics from the Ministry of Agriculture covering 29 of the country's provinces, autonomous regions and municipalities, at the end of June the total number of pigs in stock reached 339.42 million, 0.6 percent more than in the same period last year.

Meanwhile, there were 122.93 million head of other domestic animals in stock, 1.7 percent more than in the same period last year. These animals included 95.6 million head of cattle and 214 million goats and sheep, which were 2.3 and 4.6 percent more than in the same period of last year, respectively.

The output of pork in the period reached 10.12 million tons, and that of beef and mutton amounted to 430,000 tons, which were 4.2 percent and 22.1 percent more than in the same period of last year.

### **Heilongjiang Crop Area**

40060057A Harbin HEILONGJIANG RIBAO  
in Chinese 3 Jul 90 p 1

[Summary] The wheat area in Heilongjiang Province is 26,650,000 mu, an increase of 1,150,000 mu over the plan; the corn area is 32,530,000 mu, an increase of 2,530,000 mu over the plan; the rice area is 19,907,000 mu, an increase of 1,807,000 mu over the plan; and the soybean area is 30,540,000 mu, an increase of 2,660,000 mu over the plan.

### **Inflation, Fees Increase Yunnan Peasant Burdens**

90CE0279A Kunming YUNNAN RIBAO in Chinese  
17 May 90 p 2

["Letter" from Zhang Rui (1728 6904) and Shen Nong-diao (3088 0309 6148): "Peasant Burdens Have Increased Steadily"]

[Text] Although lightening peasant burdens has been called for nearly every year, the reality is that "peasant burdens have increased yearly despite the yearly calls to lighten them." A poll taken by the Yunnan rural socio-economic fact-finding team of the burdens of 260 peasant households in 13 counties (cities) in Yunnan Province, found that peasant burdens averaged 36.82 yuan per capita in 1989, for an 8.89-yuan or 31.8-percent increase over 1988's 27.93 yuan, while peasant net incomes averaged 574.16 yuan per capita in 1989, or an 18.1-percent increase over 1988, which shows that peasant burdens increased even faster than their net incomes. Peasant burdens averaged 5.7 percent of their per capita net incomes in 1988, but 6.4 percent in 1989.

Why have "peasant burdens increased yearly despite the yearly calls to lighten them?"

First, certain cadres have overestimated the extent of peasant prosperity, generally thought that peasants have it easy because they have had more money and food since the Third Plenary Session of the 11th CPC Central Committee in 1979, and even thought that peasants have become rich enough so that money should be raised from them and apportioned to quickly change the appearance of the rural areas. In addition, we have often overemphasized output value and number and size of projects when evaluating the official career achievements of cadres. This has caused certain cadres to be overeager for quick success and generally try to achieve certain things during their tenures that will go down in history to leave them good reputations, while ignoring the actual economic capabilities of their regions or departments and blindly starting certain unrealistic projects. This has formed a situation in which cadres ask for "policies" and "directives" from their superiors, while demanding

"fundraising" and "apportionment" from their subordinates. Peasant burdens have increased accordingly, the number of burdens that they have to bear has increased yearly, and they have become burdened with too many expenses even to enumerate, such as management expenses, administrative costs, pay for cadres in rural agencies, funds raised to build schools and repair roads, militia training fees, costs for caring for old people without children, and public security charges.

Second, a lack of strict control over and serious waste of raised funds exists in many villages, because of the poor quality of rural grassroots management cadres and the unsound rural fund management system. Peasants report that they have to pay money for too many projects and are unclear about how the funds that they pay are used, rural cadres only collect funds and demand money, and peasants do not know how much of the money that they have to pay is actually used in their interests. For instance, peasants from the Lijiang Naxi Autonomous County report that while the amount of money raised from them to build schools in 1989 increased 50 percent over 1988, school buildings have not changed very much, miscellaneous student expenses have also increased by more than 200 percent, and the average amount of money deducted per household and turned over to the higher authorities has increased from 3 yuan in 1988 to 20 yuan in 1989. Peasants from the Lancang Lahu Autonomous Co. report that they know where only part of the funds that they are burdened with go, while being unclear about the use of the rest of them, and that a situation exists of indiscriminate misappropriation and disordered account books.

In order to lighten peasant burdens, it will be necessary to correctly estimate the extent of peasant prosperity. Findings from a poll taken by the Yunnan rural socio-economic fact-finding team of average per capita net income in 2,400 peasant households in 1989, show that average per capita net income was less than 200 yuan in 7.8 percent of households, 200 to 500 yuan in 53 percent of households, 500 to 1,000 yuan in 33.7 percent of households, and over 1,000 yuan in only 5.5 percent of households. This shows that Yunnan's peasant incomes are below average. Moreover, it must also be realized that due to rapid increases in the prices of capital goods and articles of everyday use and higher peasant production costs and living expenses in recent years, peasant prosperity must not be estimated simply by income alone, but rather by a combination of peasant production costs, actual production capacity, and living expenses, in order to set rational criteria for peasant burdens. Indiscriminate issuing of orders to subordinates, apportioning, and fee collection must be firmly stopped, and supervision departments at all levels, such as public finance, tax collection, and auditing, must enhance their inspection and supervision of deductions.

Of course, while emphasizing the lightening of peasant burdens, we must also make peasants accept reasonable burdens, and help the masses of peasants to understand their rights and duties in this area. Grassroots cadres in

rural areas must do a good job of managing all apportioning, fund-raising, and deducting of funds, publicize all funds and amounts, truly use what is taken from the people in the interests of the people, and conscientiously accomplish things that benefit the masses of people, so that the peasants understand what is going on.

Editor's postscript: *Why is it that although lightening of peasant burdens has been constantly emphasized in recent years, peasant burdens not only have not been lightened, but have become heavier instead? The issues reported in the above letter are very deserving of our conscientious reflection.*

*It seems that we must look for the "roots" of the steady increase in all peasant burdens in the work styles and methods of certain of our cadres. Some comrades have committed the error of "bureaucracy," remained on the surface instead of going deep into the realities of life to investigate and study, relied on their feelings and impressions alone in evaluating the extent of peasant prosperity, and arbitrarily pursued collection of more fees and apportionment of more money. Others have blindly started certain projects to demonstrate their "official career achievements," and rigidly apportioned money without regard for the capacity of peasants to bear the burdens... These shortcomings in our work have left a very bad impression among the masses of peasants. Thus, the major way to begin to lighten peasant burdens, will be to change our leadership style and improve the quality of our cadres. Our cadres must acquire a firm sense of whole-hearted service to the people, stop putting on airs, become more realistic, and conscientiously help our vast numbers of peasants to increase their production and raise their living standards.*

*Of course, our current talk about lightening peasant burdens certainly does not mean that we want to exempt peasants from their rightful duties. The key will be rather to strictly distinguish rational from irrational burdens, by collecting what should be collected and absolutely not collecting what should not be collected. The key link in accomplishing this will be to enhance our supervision and inspection. In summary, we must never again do anything to dampen the initiative of the peasants.*

#### **Analysis of Yunnan's Problems in Hog Sales**

90CE0279B Kunming YUNNAN RIBAO in Chinese  
8 May 90 p 2

[Article by Liu Ming (0491 2494): "The Crux of the 'Difficulties in Selling Hogs' and Remedies"]

[Text] Early in the second quarter of 1990, the "difficulties in selling hogs" have again become the topic of conversation among Yunnan's vast numbers of grassroots cadres and rural masses. All areas, and certain counties with commodity hog bases in particular, have been asking for emergency help one after another because their pens are overstocked with fattened hogs, while all marketing areas have been limiting or even

halting procurement because their freezers are overstocked with pork. These "difficulties in selling hogs" are casting a shadow over Yunnan's already very fragile hog production.

Is it that Yunnan has too many hogs or a surplus of pork? The answer to this is negative. In 1989 for instance, Yunnan had an average of 17.7 kg of pork per capita, or 1.4 kg less than the 19.1-kg national per capita average, and also less than Yunnan's yearly average per capita consumption level of 20 kg, which meant that Yunnan was only 95 percent self-sufficient in pork. Because our output cannot meet our marketing needs, we still have to ship pork in from other provinces every year. We shipped in 11,900 tons in 1989, 539 tons in the first two months of 1990, and over 50,000 tons in 1987 when our self-sufficiency rate was at a low of 91 percent. It should be pointed out that since our output not meeting our marketing needs is still the basic dilemma of Yunnan's pork market, it is unjustified to attribute our "difficulties in selling hogs" to the market slump alone, because they are caused by deeper factors.

Yunnan's hog farming is still in the stage of mainly family farming. As live hogs and fresh pork are characterized as being alive, fresh, perishable, and difficult to store commodities, fairly high demands are put on their market circulation. As to their consumption, since there are very little means of coercing market demand, too large fluctuations in consumption volume must be prevented in every phase. This means that pork production and circulation have certain peculiarities. The contradictions that have arisen between these peculiarities and our current circulation system and management methods have caused the periodic occurrence of "difficulties in selling hogs." The major current issues in Yunnan's hog production and circulation are as follows:

1. Urban consumer markets being divorced from rural procurement and business markets is blocking circulation channels. Except for a few small towns where pork consumer markets are now completely deregulated and rely on market regulation, the pork supply in medium-sized cities, and certain large cities in particular, still depends mainly on orders placed according to contract by state-owned food companies and thus, on planned supply. In other words, diversified means of management are being used in only a very small share of the major pork consumer markets in large and medium-sized cities. In Kunming for instance, about 75 percent of pork is sold through the major state-owned channels, while only 25 percent is sold through diversified means of management. This means that while peasants have "difficulties selling hogs," city dwellers still have "difficulties buying pork," especially fresh pork, on the consumer markets.

2. Breeding is divorced from processing. The small amount of meat processing that is done in Yunnan, limits the increase in value from on-site transformation of resources. Most regions, and certain remote mountain and semimountainous areas in particular, seem to be

able to sell mostly live hogs and fresh pork alone. Even Qujing Prefecture, which produces the famous Xiaer Yunnan ham, processes only five percent of its meat. Although Xuanwei and Huize counties have a historical tradition of producing ham, they still have to base their procurement on sales, because they do not have in-depth processing capabilities. Meanwhile, certain food processing enterprises in Yunnan cities are still worried about sources of raw materials. The plant that makes the Dehe brand of canned Yunnan ham, which has such a good reputation on both international and domestic markets, is producing mostly only quail eggs and canned fruit due to a shortage of ham raw materials. Breeding being divorced from processing, and rough processing being divorced from extensive processing, are limiting hog production to a certain extent, which is another cause of our "difficulties in selling hogs."

In order to change "breeding being divorced from processing, and rough processing being divorced from extensive processing," and basically resolve the "difficulties in selling hogs," it will be necessary to set up a system of production, circulation, and processing that is suited to the peculiarities of meat markets in the following ways:

- We must vigorously develop service-type wholesale and specialized pork markets, and gradually establish and perfect a system of market circulation that has more channels and fewer links. As small, decentralized peasant household farming is going to remain Yunnan's major form of hog production for some time, all large and medium-sized cities should cooperate with hog-producing areas by forming service-type economic entities that are suited to this characteristic. Key urban wholesale markets should provide production bases with funds, information, and markets, and coordinate their marketing with the supply periods of all hog production bases, while bases must provide a supply of goods to cities, and set up sales network points close to key wholesale markets. Governments at all levels can also guide and help peasants set up various substantial professional associations, to give direct service to regular large consumers, such as enterprises and institutions, by reducing circulation links. These will be key ways to dredge circulation channels and resolve supply and demand conflicts. Some wholesale markets for livestock products have developed to a certain extent in recent years. For instance, the Qingzhen Food Trade Center in Kunming has been welcomed for its service to both producers and consumers. This center has played an active role in the increased production and market supply of beef and mutton commodities, and has provided Kunming's markets not only with fresh beef throughout the year, but also at lower prices than those in all other large and medium-sized cities throughout the PRC. Its explorations have provided useful experience for the reform of our system of fresh commodity circulation.

- We must vigorously expand our processing of pork products, and change our unitary form of management

in which we export mostly fresh and live products, to a diversified form of management which combines exports of fresh and live products with on-site processing, in order to speed up on-site transformation and increase in value of resources. This will increase peasant income and improve multipurpose economic efficiency, while avoiding large fluctuations in hog farming due to difficulties in selling live hogs, and promoting the sustained, steady, and coordinated development of hog production.

—We must focus on processing enterprises to gradually merge farming, industry, and commerce into an organic whole. Meat processing enterprises should regard hog farms as their first plant shops, do a good

job of harmonizing all profit relations, and establish stable sources of raw materials. Both meat processing enterprises and hog farmers should take long-range views, instead of being shortsighted and forgetting their duties when they see quick profits to be made. Forsaking cooperation with one's partners to grab small, momentary profits, loses stable sources of raw materials.

Only by persistently taking reform of our circulation system as the breakthrough point and achieving vigorous cooperation between hog farmers and meat processing enterprises, will we be able to basically resolve our "difficulties in selling hogs" and raise Yunnan's hog farming to new heights.

## Profiles of Prominent Hardline Writers

### Cheng Daixi, Others Featured

90CM0241A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 243, Apr 90 pp 70-72

[Article by Chung Kui (6945 5525): "Roster of Ghosts—profiles of Evil Spirits in Mainland China's Literary Circles"]

[Text] *As people are being replaced wholesale by "dogs" and "ghosts" on the "cultural front," a "dog shortage" and "ghost shortage" have occurred. Any dog or ghost who can serve as a mouthpiece is a good dog or good ghost. As a result, ghosts are running amuck. Now ghosts have occupied all the key posts, and the literary circles are reeking with the smell of corpses. A "roster of ghosts" is prepared to show their faces to the public. The first bunch includes Cheng Daixi [4453 0108 3556], Malaqinfu [3854 2139 3084 1133], and Meng Weizai [1322 0251 0762].*

### Foreword: "Dog Shortage" and "Ghost Shortage"

After suppressing the student movement with military forces in June last year, the Deng-Li-Yang clique launched a political and cultural campaign of encirclement and suppression against the intellectuals. Following 10 months of encirclement and suppression, the basic control pattern now being practiced is strong political pressure plus limited economic liberalization plus reestablishment of the ultraleft order on the cultural front. The main steps to reestablish the ultraleft order on the ideological and cultural front are: 1) To revive the theory of class struggle by dishing out a modified version of "taking class struggle as the key link"; 2) To make a show of mass criticism "against liberalization"; and 3) To go all out to seize the "cultural front" and replace all the people.

In the process of replacing the people on the "cultural front," a funny thing has happened. There is a scarcity of "dogs" and "ghosts." Since the Deng-Li-Yang clique broke with the intellectuals, there have been very few "dogs" and "ghosts" who are willing to work for them no matter what, and there are so many positions to be seized. This contradiction has created the "dog shortage" and "ghost shortage."

"Dogs" and "ghosts" like Lin Mohan, Malaqinfu, Meng Weizai, Chen Yong [7115 3279], and other ultraleftists have been mummies for a long time. Their reemergence has brought only a "smell of corpses." However, smell of corpses or not, and whether it is a white cat or a black cat, a white dog or a black dog, a white ghost or a black ghost, so long as it can serve as a mouthpiece, it is a good cat, a good dog, and a good ghost. Now ghosts have occupied all the key posts, and the literary circles are reeking with the smell of corpses. Once again the intellectuals are subjected to unprecedented political suppression.

Owing to the "dog shortage" and "ghost shortage," notorious ultraleftists have come on stage one after another. Lin Mohan grabbed the position of secretary of the leading party group of the All-China Federation of Literature and Art Circles; He Jingzhi grabbed the position of minister of culture; Chen Yong and Zheng Bonong [6774 0130 6593] grabbed positions in WENYI BAO; Ma Feng [7456 3536], Malaqinfu, Meng Weizai, and Zheng Bonong grabbed the positions of secretaries of the party leading group of the China Writers Association; Liu Baiyu [0491 4101 5038] grabbed the position of chief editor of RENMIN WENXUE [PEOPLE'S LITERATURE]; Hou Minze [0186 2404 3419] grabbed the position of chief editor of [WENXUE PINGLUN] LITERARY REVIEW; and Ding Zhenhai [0002 2182 3189] grabbed the position of chief of RENMIN RIBAO's literature and art department. In addition, they have also formed investigation groups, work groups, and criticism groups to begin collecting blacklist information and to allow a number of sinister ghosts to run amuck as they please. We now start this special column to show the world the faces of these "ghosts" and help people understand how dark the ideological and cultural circles on the mainland have become.

### Yi Ren (Cheng Daixi)—A Sinister Ghost Who Sings the Praises of All the Ghosts

On 16 February this year, the RENMIN RIBAO (OVERSEAS EDITION) published an ugly article, "The Whole Story of the Zhuozhou Meeting," which is rather enjoyable. The writer used a strange name: "Yi Ren" [1707 0086]

Who is Yi Ren? The real name is Cheng Daixi. The word Dai is a combination of Yi and Ren.

This man is notorious in mainland literary circles. He was once an editor of the People's Literary Publishing House and was later transferred to the Art Research Institute under the Ministry of Culture as a researcher. He has a bad reputation in the literary circles because he performed a "famous" "heroic" act during the Cultural Revolution.

When the director of the Literature Research Institute, He Qifang [0149 0366 5364], was being "criticized and denounced," Yi Ren, though not a member of the research institute, went into action immediately. He rushed from the publishing house to the research institute to join the "criticism and denunciation" and leveled "accusations" at He Qifang. "Filled with righteous indignation," he pointed his finger and shouted abuses at He Qifang. He was so agitated that he fainted on the spot. All those present were stunned. Though his revolutionary fervor was praiseworthy, it was really funny that he, instead of the accused, should pass out. Why did Yi Ren hate He Qifang so much? Why was he so excited? Why must he pass out? It was puzzling, and everyone talked about him. Thus Cheng Daixi's reputation spread quickly.

The downfall of the "gang of four" naturally brought an end to Cheng Daixi's career. However, since the start of the movements to "clear away ideological contamination" and "combat bourgeois liberalization," he has become active again and assumed the airs of an "orthodox Marxist." At the Zhuozhou meeting, he behaved furiously. Outside the meeting, he talked to people everywhere, complained that the other "ultraleftist" friends were too soft, and expressed his anger against the advocates of liberalization, saying that they should not just be "criticized," but should be "disciplined."

Now in writing "The Whole Story of the Zhuozhou Meeting," he acted as if he were the party's authoritative spokesman. He attacked and maligned Zhao Ziyang and Bao Tong [7637 4592]. And, in a weird "editorial" style and with affected seriousness, he "highly" appraised Lin Mohan, Chen Yong, Meng Weizai, Yao Xueyin [1202 7185 0995], and Zheng Bonong one by one and summed up the historical lessons. It was ludicrous and nauseating.

Those who do not know China would think that Yi Ren must be a senior party and political commentator. In fact, Yi Ren (Cheng Daixi) is nothing but a political swindler.

#### Malaqinfu—the "Allegiance-Pledging" Power Seeker

Malaqinfu is now in control of the "China Writers Association." He and three other "scoundrels," Ma Feng, Meng Weizai, and Zheng Bonong, are secretaries of the leading party group of the China Writers Association. Malaqinfu is said to have written a novel and a film, which no one can remember. He is unknown to intellectuals abroad.

He has an unusually strong desire for power. When Wang Meng was minister of culture, Malaqinfu wrote a "letter pledging allegiance" to him, saying that he was willing to do "any work" under Wang Meng's leadership. While serving as minister of culture, Wang Meng was also doing a lot of writing and often had too many things to take care of at the same time. He never got to read Malaqinfu's letter and thus made an enemy of him. During the campaign to combat bourgeois liberalization in 1987, Malaqinfu heaped abuses on Wang Meng and the RENMIN WENXUE, of which Wang had been chief editor. After the "4 June" incident, he again mounted brutal attacks against Wang. When people exposed the "letter pledging allegiance" he once wrote, he had the nerve to say, "What I had in mind at that time was to take the risk in order to accomplish something great."

In early 1987, during the campaign to combat liberalization, because Malaqinfu was very active and made contributions, Wang Renzhi [3769 1804 0037], Meng Weizai, and others, then in control of the Propaganda Department of the CPC Central Committee, planned to make him secretary of the leading party group of the China Writers Association, but it was only an "internal leadership intention" and was not formally announced. When he became aware of it, he was unable to hold back

his excitement, and at a meeting in Shanxi he had the cheek to announce that he had become secretary of the leading party group of the China Writers Association. The news spread quickly on the literary front, and everyone thought that the China Writers Association had been reorganized and that he had taken over as secretary of the leading party group. Unexpectedly, after the Shanxi meeting, Zhao Ziyang read the records of the Zhuozhou meeting and poured cold water on those vanguards in the fight against liberalization. Thereby Deng Liqun, Wang Renzhi, Meng Weizai, and others hastily abandoned their plan, and naturally Malaqinfu did not become secretary of the leading party group. The matter has since become a standing joke in mainland literature and art circles.

Can a man who is so crazy about power that he would do anything to worm his way up and who is so eager to fight for a title be a real "writer?" Nevertheless, it is precisely such a despicable soul who is riding roughshod over the writers on Mainland China. How tragic and weird?

#### Meng Weizai—Seeking Official Positions by a Devious Path

Meng Weizai, recently appointed to the China Writers Association to "take charge of the leading party group" together with Malaqinfu, is an especially notorious person in mainland literary circles.

Before the Cultural Revolution, Meng Weizai wrote a novel called *The War of Yesterday*. After the downfall of the "gang of four," he suddenly turned himself into a radical "reformist" and wrote a medium-length novel, *Tide at Dawn*, in which he went so far as to call for women to "go back to the kitchen." During the campaign to combat liberalization, even the veteran revolutionary writer Cao Ming [5430 2494] was frowned upon and questioned, "How far right have you deviated?" After that he and Bao Zunxin [0545 6690 0207], now a wanted criminal (and already arrested), worked together and edited a series of cultural exploration books (published in Shandong), putting on yet another mask. He did these things in an attempt to join the reformers and advance his official career. However, his opportunistic attempt was unsuccessful, and so he looked elsewhere and found Deng Liqun and Wang Renzhi.

Chinese writers saw Meng Weizai's true features from two episodes. The first, when he was deputy director of the People's Literary Publishing House, he was unhappy about the low position. So he went to Deng Liqun for help and, through his "connections" with the former secretary and propaganda department director of the Qinghai Provincial CPC Committee, was appointed deputy director of the propaganda department and chief of the literature and art bureau on the Qinghai plateau. It was a carefully planned move. He kept his residence registered in Beijing, planning to eventually return to Beijing by this devious path to become deputy director of the CPC Central Committee's Propaganda Department. The way he racked his brains to advance his



official career, going to the plateau first and then finding his way back into the power center, is surely contemptible in the eyes of the writers.

The second episode from which the Chinese writers saw the man's true features occurred during the 1987 campaign against liberalization. After two years on the plateau, he now took advantage of the "national disaster" to make a personal gain. He became chief of the Literature and Art Bureau under the CPC Central Committee's Propaganda Department, achieving what he had wanted. The bureau chief position is close to that of deputy director of the Propaganda Department. The man promptly put on a different face in his new position. As soon as he became chief of the Literature and Art Bureau, he began to retaliate against the China Writers Association. Together with Deng Liqun and Wang Renzhi, he announced that the Writers Association was to be incorporated into the CPC Central Committee's Propaganda Department and placed under the department's direct jurisdiction, that is, under his direct control. His control proved to be ruthless indeed. When association members were assembled to study antiliberalization documents, no one was allowed to be absent, not even those who were sick. He took part in the planning of the Zhuozhou meeting. At the meeting, he said ferociously that there was no "turning back" now and that a "decisive battle" must be fought. What a picture of a villain holding sway! During the campaign to "combat liberalization," his despicable soul and vicious character were thoroughly exposed, and he was quickly discredited and shunned by the writers. In view of his notoriety, the CPC Central Committee Propaganda Department kicked him out, telling him to find another job. Suddenly he became a "stray dog," frightened and trying in vain to find a place that would take him. Finally it was Du Daozheng [2629 1418 2973], chief of the Publishing Bureau, who felt sorry for him and gave him an empty title of "research fellow" so that he could get paid. When he returned home, his wife had divorced him, and his telephone had been disconnected.

Now, he has staged a comeback. What the future holds for him is yet to be seen.

#### Reemergence of Lin Mohan

90CM0241B Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 244, May 90 pp 101-103

[Article by Li Szu-pai (2621 1835 2672): "Roster of Ghosts (II): Lin Mohan—Killer in the Literary Circles"]

[Text] *The consistent thug and killer on the literary front, who had framed innocent people for decades, has now staged a comeback and become commander in chief of the literary and art circles. It is not unusual for a person to do a bad thing occasionally; it is unusual for a person to do bad things all his life. This is a sadist of our time, an example worthy of study.*

The event most symbolic of the reestablishment of the ultraleft order in Mainland China's literary and art

circles is the reemergence of Lin Mohan from retirement to become secretary of the leading party group of the All-China Federation of Literature and Art Circles, the commander in chief on the literary and art front.

Lin Mohan's seizure of this post is cause for the scoundrels in the literary and art circles to congratulate each other on the prospect of getting good appointments, but has made every real writer feel angry and terribly insulted. It is because the name Lin Mohan has become a well-known symbol that implies cruelty, heartless autocracy, the real arrival of the ultraleft order, and the return to the heart of every honest writer of a nightmare which has haunted China's literary and art circles for decades.

#### Initiator of Phony Charges Against Hu Feng

As known by all who understand the situation in Mainland China's literary circles, Lin Mohan is a consistent thug and killer on the cultural front. As early as the 1940's, he and Chen Boda and others wrote vicious articles for the persecution of Wang Shiwei [3769 1395 0724] (in Yanan). Later on, he repeatedly played the most important and thoroughgoing role in trumped-up cases against writers on the mainland. The most glaring example was the trumped-up charges wildly leveled by him against the so-called "Hu Feng counterrevolutionary clique."

This major trumped-up case was initiated by none other than Lin Mohan. On 29 January 1953, at a meeting of members of the China Writers Association in Beijing, Lin Mohan made a report on Hu Feng's thinking on literature and art. The next day, WENYI BAO published his article "Hu Feng's Anti-Marxist Ideas on Literature and Art." In the report, he suggested for the first time the existence of a "small clique headed by Hu Feng." His article was quickly reprinted by RENMIN RIBAO with an "editor's note." However, up to this point, the "small Hu Feng clique" was not yet regarded as a "counterrevolutionary clique." Therefore, Hu Feng was still allowed to defend himself until he wrote a 300,000-word article entitled "Hu Feng's Views on Questions of Literature and Art."

On 22 January 1955, the presidium of the China Writers Association printed and distributed Hu Feng's article to writers, together with two articles by Lin Mohan and He Qifang criticizing Hu Feng. In early February, the Presidium of the China Writers Association held a meeting to criticize Hu Feng's "bourgeois idealist thinking on literature and art" and still treated the Hu Feng question as a factional and idealist question.

Then, to lay a deathtrap for Hu Feng, Lin Mohan made a crucial move. Posing as an old friend, he called on Shu Wu [5289 5617] for a "chat." He tricked Shu Wu into giving him letters Hu Feng had written to Shu Wu in the 1940's and other letters in Shu Wu's possession. Later, Lin Mohan gave the letters to Mao Zedong. After reading the letters, Mao Zedong flew into a rage and finally picked up his pen and passed judgment—that Hu Feng

had an "antiparty clique." From then on, the nature of the Hu Feng question suddenly changed. It became a shocking case of "counterrevolutionary" crimes and marked the beginning of a massive purge, which shook the whole country.

#### "Absolutely No Contrition" for the Frame-Up

Following Mao Zedong's written comments, the CPC Central Committee Propaganda Department and the Ministry of Public Security formed a five-man special group to investigate the case, and Lin Mohan and Liu Baiyu were key members of the group. After its establishment, the special group moved into the Ministry of Public Security, combining culture with force, and Lin Mohan changed from a "mass criticism" player into an arrogant big shot with the power to directly order arrests and to spare or kill. Under his direction, the Ministry of Public Security swiftly arrested 92 people, isolated 62 for examination, suspended 73 from work for self-examination, and implicated more than 2,000. In May, Hu Feng, Mei Zhi [2734 1807], Lu Ling [6424 5044], Niu Han [3662 3352], Xu Fang [1776 2397], Lu Yuan [4845 0626], Xie Tao [6200 7290], Liu Xuewei [0491 7185 5517], Ren Min [0117 2404], Zhang Zhongxiao [1728 0022 2556], Geng Yong [5105 1661], Wang Rong [3769 2051], He Manzi [0149 3341 1311], Luo Luo [5012 3157], Wang Yuanhua [3769 0955 0553], Peng Baishan [1756 2672 1472], Li Zhenglian [2621 2973 1670], Gu Zhengnan [7357 1767 0589], Xu Xihua [6079 1835 5478], Luo Fei [5012 7378], Zhang Yu [1728 4416], Mei Lin [2734 2651], Man Tao [3341 3447], and others in Beijing; Hua Tie [0553 6993], Ouyang Zhuang [2962 7122 5445], and others in Nanjing; Ji Pang [0370 3316] and Fang Ran [2455 3544] in Hangzhou; Peng Yanjiao [1756 3601 6738] in Hunan; and Zeng Zhuo [2582 0587], Zheng Si [6774 1835], and others in northern Hunan; were all arrested and put in prison, even though they were well-known writers, poets, and scholars. How could these intellectuals, who hailed the birth of "New China" with their poems and articles, have expected this to happen? These good and honest souls could never have imagined that Lin Mohan the killer on the literary front was so cruel and vicious under the signboard of "Marxism."

After 25 years, in 1980, the Ministry of Public Security, the Supreme People's Procuratorate, and the Supreme People's Court issued a "report on the reexamination of the case of the 'Hu Feng counterrevolutionary clique,'" formally announcing that "there was no counterrevolutionary clique headed by Hu Feng, and the case of the Hu Feng counterrevolutionary clique was a case of false charges and wrong judgment." Again in 1988, the CPC Central Committee recognized that Hu Feng's viewpoint on literature and art was a purely academic question, which should be discussed under the principle of letting a hundred flowers blossom and a hundred schools of thought contend. However, despite the CPC Central Committee's conclusion, Lin Mohan declared publicly that he would never apologize on the Hu Feng question. Last year he published an article declaring that on the Hu

Feng question he had "absolutely no contrition." The literary and art circles on the mainland were astonished by his "declaration." "How can a person be so callous and vicious like a viper?"

#### Calling for Constant Vigilance Against Enemies in the Literary and Art Circles

Those who understand Lin Mohan are not surprised by his diehard attitude. His evil-doing is not limited to the Hu Feng case. After the Hu Feng case, he participated in the creation of the trumped-up charges against the "rightists." In the "antirightist" struggle, Lin Mohan again became a devil incarnate with power over people's life and death in the literary and art circles (details will be given in a separate article).

In 1960, the literary and art circles were badly shaken, dictatorship was imposed on the "Hu Feng elements" and "rightists," and writers were on the verge of starvation. However, Lin Mohan still published an article, entitled "Hold Still Higher the Banner of Mao Zedong Thought on Literature and Art," in WENYI BAO, to sound the alarm again about the "presence of enemies" in the literary and art circles, which was totally groundless. In the highest pitch, he incited, "Toward Mao Zedong Thought on literature and art, people of different classes and different stands take different attitudes. One attitude is to support it, which is the attitude of the great majority. Another attitude is to oppose it. Still another is to underestimate it, and this is the attitude of a fairly large number of people. People who support Mao Zedong Thought on literature and art naturally understand its significance, but their understanding can also differ in degree. Those who oppose Mao Zedong Thought on literature and art have a deep-seated hatred of it. Why do they hate it so much? It is because they sense by instinct that Mao Zedong Thought on literature and art is an extremely sharp weapon, which poses a serious threat to the bourgeois ideology and the bourgeois world outlook. Therefore, they are trying in every possible way to eliminate Mao Zedong Thought on literature and art. They hate it bitterly. The Hu Feng elements curse the *Talks at the Yanan Forum on Literature and Art* as a 'totem' and allege that 'it can kill people.' But they know it is very difficult to oppose Mao Zedong Thought openly. So they have adopted two ways. One is Hu Feng's way, who told members of his clique to pretend to follow Mao Zedong Thought while actually opposing it. Others try hard to find some way to modify Mao Zedong Thought on literature and art and make it conform to their bourgeois viewpoint. This is what rightists like Xu Maoyong [1776 2021 1661] and Qin Zhaoayang [4440 0340 7122] are doing."

Incited by this article of Lin Mohan's, the literary and art circles leaned further to the left. Another upsurge was set off in criticizing the "theory of human nature," "humanitarianism," and the "theory of middle characters." By this time, Lin Mohan was promoted to the important post of deputy director of the CPC Central Committee Propaganda Department.

Lin Mohan not only stubbornly refused to admit he had done anything wrong in the past, but, even after the downfall of the "gang of four," continued to act as a thug and killer on the literary front and continued to pursue an ultraleftist line in literature and art together with He Jingzhi, Liu Baiyu, Wang Renzhi, and others. At the Fourth National Congress of the All-China Federation of Literature and Art Circles, even Zhou Yang called for abandoning the slogan "literature and art must serve politics," but he indicated he would "adhere forever" to the slogan.

Since the "4 June" incident last year, he has made speeches and published articles everywhere he went, delighted about the massacre of students and civilians, and has begun organizing a massive encirclement and suppression of writers and other intellectuals. He has become not only secretary of the leading party group of the All-China Federation of Literature and Art Circles, but also the direct organizer and "handler" of the criticism of "bourgeois liberalization." The need for a "handler" is because writers of criticism articles are afraid of coming into the open and do not want the newspaper editorial departments to know their real names. Therefore, the criticism articles are delivered through him, and payments are also sent to him to be forwarded to the writers.

Lin Mohan is a very unusual person. he is in the habit of making people suffer, killing people, and sucking people's blood, especially writers. Now that he has been promoted to an important position and his blood thirst is being satisfied, he is, therefore, working with great enthusiasm.

#### The Least Moral But the Most Powerful

An understanding of what Lin Mohan has been doing for decades compels amazement, because it is not unusual for a person to do a bad thing occasionally, but it is unusual for a person to keep doing bad things, torturing people, and killing people all his life. Lin Mohan is such a person. Honest writers on the mainland disdain to mention the name of Lin Mohan. They feel that the name smells of blood and of wolves and tigers, and that a mention of his name brings pictures of corpses and hell and makes people wonder if mankind has completed the evolution as human beings. But the most direct reason is that whenever his name is mentioned, they will have no inspiration, only a sense of suffocation. But all these are sentimental opinions. Actually, the phenomenon of Lin Mohan merits attention and study. In the history of Chinese culture, this kind of revolutionary-flag-waving cultural killer is very rare.

If we want to deal with this phenomenon rationally, we should then think deeply: Why has this kind of sanguinary political animal like Lin Mohan appeared on Mainland China? Why has contemporary Chinese culture given birth to this kind of cultural character? Why are the vast numbers of writers on Mainland China still being trampled underfoot by a Nazi type of bureaucrat to

this day? Why is it that the person who is the loudest in hailing the name of Marx is the least moral but the most powerful? Why do those in power in China today still find it necessary to reinstate such a sadist who has long been thoroughly discredited and is now near 80 years old? These questions are worth studying. They involve political, economic, institutional, historical, cultural, and many other complicated reasons.

A good study of the phenomenon of Lin Mohan the contemporary sadist will provide a mirror for young Chinese intellectuals to help them understand: How should they conduct themselves? How should they not conduct themselves? What kind of misfortunes and darkness have the older generation of intellectuals gone through? How brutal and murderous are those now sitting on their heads and in control? What kind of monsters are trampling on the culture of their motherland? Lin Mohan the sadist of our time can also serve as an example for the world's anthropologists: How bad can a person in the cultural circles become? How evil can one's heart become? When a certain "man" becomes a ruler before he has evolved completely into a human being, what suffering will befall mankind? How far can a man-made literary inquisition develop, and how miserable can mankind be made by it?

In short, by understanding Lin Mohan, we can also understand many strange things, including the "4 June" incident last year, which has left the whole world dumbstruck; and we can see that the madness to send 300,000 field army troops to kill students and civilians and the ruthlessness of Lin Mohan in putting the "Hu Feng elements" in prison and to death are interlinked. Therefore, those who shouted and jumped with joy about the "4 June" massacre can only be cultural wolves like Lin Mohan, as all normal people can only cry, feel angry, and protest.

**Mao Zedong Said Inspired by Traditional Culture**  
*90CM0150A Hong Kong KAIFANG [OPEN] in Chinese*  
*No 39, Mar 90 pp 29-31*

[Article by Jiang Yihua (5637 5030 5478): "The Influence of Traditional Culture on Mao Zedong"; originally published in FUDAN XUEBAO [FUDAN UNIVERSITY JOURNAL], Volume 3, 1989]

[Text] This essay on Mao Zedong, written by a mainland scholar, reveals, from a traditional culture standpoint, how Mao Zedong was inspired by the ruling thought of feudal emperors and by peasant uprisings and how these experiences left their mark on him. The essay is rich in material and the arguments are compelling.

In the 27 or 28 years from age 56 to age 83 (from the founding of the People's Republic of China up to the final days of the Cultural Revolution), Mao Zedong's previous relationship to traditional Chinese culture and the enlightenment movement underwent great change. This period, with one climactic event following on the heels of another, was one of unusual complexity. A great

number of documents have still not been released for public examination, and for this reason the argument cannot be backed up with evidence of exacting specificity. However, we can still grasp some of the more obvious features.

#### Rereading 24 Historical Annals Comprising 40 Million Characters

The first thing that bears emphasizing is the extent to which Mao Zedong valued traditional Chinese historical culture. In 1952 Mao got hold of the 24 annals of valiant warrior classics printed by decree of the Qing dynasty emperor Qian Long. These annals were comprised of a total of 850 volumes containing 3,249 books and approximately 40 million characters. In the 20-odd years to follow, Mao read through the whole work, and many of the sections he reread many times. His favorites were works such as *The Records of the Historian*, *The History of the Han Dynasty*, *The Romance of the Three Kingdoms*, *The History of the Jin Dynasty*, *The Old Tang History*, *The New Tang History*, and *The History of the Ming Dynasty*. In addition, he systematically read through such historical works as *Zi Zhi Tong Jian* [6327 3112 6639 7003; a 294-volume chronicle by Si Maguang], *Xu Zi Zhi Tong Jian* [The Sequel to *Zi Zhi Tong Jian*], *Gang Jian Yi Zhi Lu* [4854 7003 2496 4249 6922], *Tong Jian Ji Shi Ben Mo* [6639 7003 4764 0057 2609 2608], and *Xu Zi Zhi Tong Jian Ben Mo* [The Sequel to *Zi Zhi Tong Jian Ben Mo*]. He read these works actively, highlighting important points, and making numerous comments in the margins, and often he selected portions of the works and sent them to other leading comrades in the party. Mao organized and oversaw an effort by historians in China to proofread and publish *A Chronological History of China from the Warring States Period to the Song Dynasty* or *Zizhi-tongjian* and the 24 historical annals printed during the Qing dynasty. Mao also read numerous poems, melodic songs, operatic songs, long odes, sketches, and novels from the classical literature. He read *The Dream of the Red Chamber* at least five times, and he also read it as a historical work. In comparison, we should point out that Mao did not have much interest in reading the Confucian classics, and usually he would only give his attention to the ancient 'zi'-style literature when he was doing research on the history of Chinese and foreign philosophy. We now know this to be an objective fact by reference to the list he made of books to take along with him on his trip abroad on 23 October 1959.

Why did Mao, from the founding of the PRC up to the eve of his death, have a particular preference for traditional Chinese historical culture? In the final analysis, what influence did traditional Chinese history have on changes in Mao's thought and practice during this period? These questions should be answered after making a detailed study of the highlights and margin comments Mao jotted in the classical literature that he read. Early on, Mao proposed that Marxism should be adapted to the Chinese condition, and that Marxism should be integrated with China's history and culture.

I'm afraid that one important motivation here was that Mao wanted to personally cultivate and dig up the classical Chinese historical works. However, it is quite doubtful that one solitary man would be able to achieve this goal by sitting alone under a lamp and reading historical dynastic biographies that were written to put the ancestors of one who calls himself the emperor into a good light. In fact, although Mao was a specialist in history, only a few Chinese have ever read through the entire 24 historical annals and the other biographical annals. Here, we have to consider the unique position and special nature of historical culture within the overall system of traditional Chinese culture. Traditional historical culture emerged most fully and concretely in the form of dynastic "biographical histories," that is, compilations of history done by officials, which follow the rise and fall of successive imperial courts, and which are designed to enable political power organizations loyal to the emperor to keep society under control and ensure long rule under peaceful conditions. Compared to the traditional Confucian classics and other sage-inspired works, traditional historical works do a better job than any other offering in standard Chinese traditional culture of pulling together the theories and practices used by such schools as the Confucians, the Legalists, and the Taoists to rule the nation and keep a lid on things. Moreover, traditional historical classics offer many practical lessons and warnings that can be drawn on, and they serve as the encyclopedic repository of the experiences of successive rulers in Chinese history. All of the emperors of any merit treated the historical classics as the basic textbooks for their education. There is a great need to further explore the question of to what extent the accolades accorded Mao as the founder of the People's Republic of China, the great liberator of the people, the great leader, and the great commander in chief who "will quickly win over and rule the world" had an effect on his own mind and on his particular love for a habituation to traditional historical culture. We can see from the discussion he had with two visiting foreign delegations in December 1960 that he was greatly attracted to the ideologies, methods, and experiences of ruling that prevailed during the ascension of the feudal rulers. And in his final days Mao showed a particular affinity for the Legalist school and its straightforward statements on the art of ruling, commending their methods and advocating adoption of the same. This was the inevitable consequence of the developmental trend Mao found himself in.

The high regard that Mao had for standard traditional culture as embodied by traditional historical culture did not lessen his reverence for the nonstandard traditional culture of the peasants. It is said that in the speedy victory of the modern peasant war led by the Chinese Communist Party, small-bore rifles wiped out the modern armaments employed by the 8 million Kuomintang troops, and land distribution overcame Chinese bureaucratic capitalism that was supported by the strongest capitalist nation in the world. After the founding of the PRC, Mao's praise and commendation for the

peasant movement and the ideal peasant society not only did not lessen, but in fact grew stronger. After the political situation at home had become stabilized, the national economy had been restored and set in the right direction, and major military successes had been achieved in the War to Resist U.S. Aggression and Aid Korea, Mao clearly stopped criticizing the trend to consider the people as pure, abandoned his ideas for a new democracy, and demanded that small peasant production should become the rule and that China should march toward socialism as fast as possible with small producers joining together and distributions being made jointly. Within the party there were some who still persisted in holding to the views elucidated by Mao when he was critical of the people-as-pure trend. These folk felt that administrative methods to force small producers to join together under conditions of small production and an individual economy would be an unsuccessful crash course on the road toward socialism. Mao, on the contrary, criticized this as capitalist ideology.

#### **The People's Communes: A Phantom From the Taiping Heavenly Kingdom**

In December 1958, Mao jotted two long sections of notes in his copy of *The Romance of the Three Kingdoms—The Story of Zhang Lu* in which he emphasized that all of the peasant revolutions, large or small, throughout history have, with the modern Marxist revolutionary movement, "a point of similarity, namely, that a growing class of peasants who find themselves in extreme poverty dream of equality, freedom, better circumstances, and clothing and food." He wrote that, from the end of the Han dynasty up until the present, "looking at it from many standpoints such as the poor peasant, the lower-middle peasant living in poverty and blankness, and other similar situations," in those 2,000 years a large-scale "peasant revolutionary movement" has seemingly gone on without stop, and he concluded that "the history of China, and the history of the world, has been one long episode of class struggle." The direct result of this consciousness of history was to repeat the "Celestial Dynasty land system" in the form of people's communes where "everyone tilled the soil together, everyone ate together, everyone wore the same clothes, everyone spent money together, everything was evenly distributed, and everyone was full and warm." The imperial storehouse system of 100 years before reappeared in the form of such things as the communal dining hall movement, and, under the rubric of criticizing "capitalist class rights," Mao denied commodity production, the law of value, and any economic activity that did not have a political or military nature. China did not have much industry, and agriculture was not developed. Cultural and scientific levels were both low. It was this "poor and blank" quality that prevented China from immediately implementing socialist-style production and distribution in the first place. But, on the contrary, Mao came to see "poverty" as an element to rely on, and decided that "poor and blank" would be a better condition to have in

carrying out a socialist revolution. In *A Discussion on the 10 Great Relationships*, Mao said "the poor must revolt, but a revolution of the rich is a real problem. Countries with high levels of science and technology are too full of themselves. We, the Chinese, are a blank slate, the better on which to write." During the Great Leap Forward, foreigners commented that "poverty is the force that propels the Chinese leap." Mao responded to this with delight, saying that "poverty is the force" is exactly correct. This is because the poor must revolt, and continue to revolt. "With wealth the situation becomes less encouraging. Now China is not wealthy, but in the future it will become so, and without a doubt this will lead to problems." In point of fact, neither poverty nor blankness indicate that one has a fresh, clean slate to work on. A backward economy and low cultural and scientific levels merely hold back the development of the quality of civilization for all members of society. With this happening, continuous revolution through the use of ideological and political force that keeps redistributing the ownership of wealth in fact will only ensure the repeated appearance of the historical peasant nation ideal in the modern age.

#### **Too Much Reading Makes for a Bad Emperor**

With Mao abandoning the new democracy and moving toward the use of administrative power to pass as fast as possible into joint, even distributions based on small production, his attitude changed greatly with regard to the modern enlightenment movement and the growing number of intellectuals when compared with his previous phase. In May 1951 Mao launched an attack on the movie *The Generous Beggar Wu Xun*, and had already censured the literati for their intolerable level of ideological chaos. Then in 1953 he attacked Liang Shuming [4731 3359 3298], in 1954 he attacked the supporters of Hu Shih, in 1955 he attacked the Hu Shih wave, in 1956 he attacked the 1 million intellectuals in the party, and in 1957 he was against the "reactionaries." His criticism of the intellectuals was that in the past they were aligned with the imperialist ownership system, the feudalist ownership system, the bureaucratic-capitalist ownership system, the nationalist-capitalist ownership system, and the small production ownership system, all of which made of the five layers of "skin." Now the five layers of skin were all gone, but the intellectuals were forever waxing nostalgic for the old life and ways. "The vast majority of our intellectuals today basically have a capitalist class world view, and they still belong to the capitalist class." "Their views are different from those of the workers and the peasants, as are their stances and sentiments." Consequently, at the Wuchang Conference in November 1958, Mao pointed out the ideological and political values of the capitalist class that still held sway in Chinese life. He felt that the greater levels of culture and skill possessed by the 5 million intellectuals and the 700,000 capitalists were what fueled their haughty arrogance. To strip them of the source of their arrogance, Mao began, in 1957, to harp over and over again that "the intellectuals have the least knowledge of all." Later

he began putting it in even more extreme terms, saying that "the ignorant are the wisest, and the elitists are the most stupid," and that "those with little knowledge should rise up and overthrow those with a lot of knowledge." Moreover, he proudly proclaimed that the victory in the Chinese revolution "will come when the worker and peasant forces defeat the intellectual forces." And, he used examples of past emperors to show that people who read too much cannot do anything well: "Of all the Ming dynasty emperors, only Zhu Yuanzhang (the first emperor) and Zhu Kang did any good. One was illiterate and the other could barely read. The Han emperor Liu Bang was a simple guy and he had no culture. Those who read a lot do not make good emperors." Thus, Mao also emphasized that "it is not good to read too many Marxist books either. Stick to a handful of volumes. If one reads too many of them he will go the wrong way and become a dogmatist or a revisionist."

Starting in 1958, Mao set out the "three Red banners"—the general line, the Great Leap Forward, and the people's communes. In the end, the launching of the Great Leap Forward and the people's commune movements led to massive economic destruction and the hunger-related deaths of nearly 10 million people. In 1961 Mao began promoting the eight-character policy of "adjust, consolidate, enrich, and heighten," and village people's communes, state-run industries and enterprises, businesses, schools, science, and the arts, among other areas, all began to work at formulating rules for their tasks which in fact violated certain basic concepts and principal methods that had been in effect between 1958 and 1962 for the people's communes and the Great Leap Forward. Mao Zedong viewed these efforts as a growing tidal wave of a "return to individualism," "darkness," and "subversion of a decision." Mao then launched another political movement attacking the intellectuals. In 1963 he criticized the Cultural Bureau as being made up of persons who favored imperial-style cronyism, advancement of the beautiful and romantic ethic, and foreign skeletons. In 1964 he categorically asserted that in recent years most cultural groups and the associations and publications that belong to them had "slipped back, and are bordering on revisionism." At a large Politburo meeting in March 1966 Mao said that "today all of our schools are under the control of intellectuals who have capitalist, petty bourgeois, landlord, or rich peasant roots." These people "are, in fact, a bunch of Kuomintang loyalists... the class struggle is acute and widespread." On 7 May of the same year he emphasized, in a letter to Lin Biao, that "we can no longer allow the capitalist intellectuals to run our schools."

#### **The Cultural Revolution—The Brainchild of an Old Man**

Mao Zedong came to lay increasing emphasis on the class struggle aspects of Marxism. At a discussion on philosophical work at Beidaihe on 18 August 1964, Mao said: "The three constituent elements of Marxism are founded on social science and class struggle." "Class struggle comes first." The same year, in a discussion with

Mao Yuanxin [3029 6678 2450], Mao Zedong said, "The basic idea one gets from study of Marxism-Leninism is the need for revolution. What is revolution? Revolution is where the proletariat overthrows the capitalists and the peasants overthrow the landlords. Then, political power is given to an alliance of workers and peasants, and this power is then consolidated. The revolutionary mission has not yet been completed, and it has not yet been determined who, in the end, will overthrow whom." These discussions show that Mao's understanding of Marxism and revolution had reverted to an earlier stage—he thought Marxism and revolution only meant class struggle and the wresting away and consolidation of political power. Mao had pushed aside the specific contents of Marxist class struggle doctrine and the contents of a deeper, broader social revolution.

There are deep social, historical, and ideological-cultural reasons for the outbreak of the decade-long Great Cultural Revolution. Similarly, there were many concurrent factors that played a part in Mao's launching and trying to steer this Cultural Revolution. However, if we look at it from the standpoint of the mind of an old man who had been through innumerable stormy changes, "I cannot wait forever, it's now or never." In the limited time he had left on this earth, Mao wanted to eliminate all of the obstacles to the realization of his ideal world, and then to turn his ideal into a living reality. Now the sympathies that Mao had for the enlightenment movement were completely overwhelmed by the Marxism-Leninism, the traditional standard culture, and the non-standard culture that had become concentrated in his mind. In these 10 years, the two trends of historicism and romanticism still coexisted in Mao's mind, and remained in continuous conflict. However, up until the day of his death, his romantic ideals overcame his historicism and realism and their respect for historical development. In theory and in practice, Mao intended for the rural villages to again encircle the cities in a nonviolent way, with the object being to hit at the commodity economies of the cities and the intellectuals. However, the result was not what he had anticipated.

In modern China, the give-and-take, the forces on the two sides were quite unequal. Undoubtedly, Mao Zedong wrote his own personal history. However, without the overall situation being as it was, his own cultural history could not have taken on the form that it did. This sort of bifurcated cultural movement and the effects that each side had on the other still decide or inhibit the fate of nearly all modern Chinese intellectuals. And unfortunately, it looks like this will continue on into the foreseeable future. Perhaps the new page in Chinese cultural development will come when this bifurcated give-and-take between the two sides is transcended and the enlightenment movement is wrapped up, when a spirit comes over the Chinese people to move out toward the world and the future, when we make full use of all of our human cultural legacies, and when we actively engage in new creativity and the building of a new culture with vigorous, flourishing, pluralistic vitality. It

is quite possible that these developments will be the acid test for the future of the Chinese intellectual.

### Commentary on Ba Jin's *Random Thoughts*

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[Article by Dan Chen (0030 2525): "On Ba Jin and *Random Thoughts*"]

[Text] The five volumes of *Random Thoughts* written by Ba Jin in his later years are not only his most important literary offering in the 1980's, but also are his most valuable works in the 40 years since 1949. *Random Thoughts* occupies a key position in the literary career of Ba Jin. However, although *Random Thoughts*, like his earlier works, has met with strong reaction, *Random Thoughts* represents a new type of work for Ba Jin. Thus, in my opinion, studying *Random Thoughts* is an indispensable part of studying Ba Jin's works.

### "Starting Out With the Easy Things First"

Ba Jin is one of the major writers of 20th-century China, with a literary career that has already spanned more than 60 years. Ba Jin is noted for his novels. In 1977 he picked up the pen that had been taken away from him for over 10 years and set an enormous project for himself. His plan was to write two novels, five volumes of random thoughts, one volume of recollections on his works, and to finish translating the five volumes of *My Past and Thoughts*<sup>1</sup>, and to do all of this before he turned 80 years old, which, in effect, gave him five or six years to achieve his goal. Although he was ill, had fallen and injured himself, and spent a lot of time recuperating in the hospital, and although he had numerous activities, meetings, social calls, and miscellaneous affairs cutting into his time and interfering with his project, he still managed to complete the five volumes of *Random Thoughts* comprising over 460,000 characters and *My Past and Thoughts* comprising over 80,000 characters. Moreover, he has managed to partially complete the novels he had already started, writing 10,000-20,000 characters in each. There are other reasons for this.

In the preface to *Random Thoughts* he writes, "Bit by bit I hope to do something real and to leave something of a mark. I will start by doing the easy things first. My plan is to write a little book of *Random Thoughts*. I will publish each piece as I write it. In these essays I will merely record my feelings at various times and places. I do not intend to be sympathetic nor to say wise things." This passage can be understood at two different levels. First, one can understand these random thoughts as being actual knowledge Ba Jin has gained after reflecting on things. Or, one can see Ba Jin's use of the random thought format as being simpler and more accommodating in light of his age and physical strength. Ba Jin himself points out that "I am over 70 and do not have much more time to work." Thus, in a certain sense, what Ba Jin is doing happens to coincide with what Lu Xun

did when he appraised his own works. In *Qiejieting Collected Essays*, Lu Xun said that his essays were only "stalls that I arranged late at night on a street corner to offer tacks and earthenware plates. But, I hope, and I am confident, that some persons will be able to find something useful at my stall." Lu Xun had a sense of urgency, and he felt that he himself was too busy to concentrate on a master work of grand proportions. He was driven to see that his works struck a "responsive nerve and brought the people together." In the 1970's, as his pen remained inactive, Ba Jin too had strong feelings of urgency and wanted to make an impression on his times.

### "Final Words"

Precisely because Ba Jin is aware of his old age and coming death, he is determined to work hard in the limited amount of time he has left to finish those things that he feels are most important to finish. He says "I am now on the way to senility and death. My final wish is to finish up the things I want to do, to complete all the pieces I want to write, and to put myself in a position where I can contentedly close my eyes."<sup>2</sup> He wrote *Random Thoughts* as his "last will and testament." In comparison, writing novels and doing translations of other works are less urgent tasks. There were certain friends of Ba Jin who felt that translation is a task that can be left to other experts to perform, that *Random Thoughts*, a project that could be dispensed with, could be written bit by bit in his spare time, but that the important thing was for Ba Jin, a novelist who had not written a great novel in 40 years, to complete a novel and that this was not something another person could do for him. Undoubtedly, the opinion of his well-intentioned friends was not without a certain reasonableness, but they could not understand why Ba Jin felt it was more urgent that he write his "last will and testament" than a novel, and why this had to be his primary consideration. The way Ba Jin saw it, "I want to struggle to write until I am 80 years old. And I am going to struggle to write not one volume, but several volumes of random thoughts. I want to write down my true, heartfelt thoughts for my readers." Ba Jin saw these as his "final words."<sup>3</sup> In the postscript to the first volume of *Random Thoughts*, he quotes the classical saying that "a man close to death speaks only kind words," and then says: "I have voluntarily written a true 'accounting of my thoughts.'" This so-called "account of one's thoughts" is a phrase that was originally used during the period of ultraleftist rule and it refers to how people were compelled to confess their secret, personal thoughts and the things they knew even if these things did not exist, the people did not believe in them, or they did not agree with them, all as a basis for criticism and punishment. Ba Jin employs this phrase in an allegorical way to point to the devastating compulsion and duress exacted on the people, and to show that what he is now saying is of his own volition and represents his "heartfelt thoughts being passed on to the reader."<sup>4</sup> It is his final chance to snatch up the opportunity to write for what I believe in."<sup>5</sup>



### "It Concerns All of Humanity"

The Cultural Revolution was an unprecedented catastrophe for the Chinese people. It was precisely during this period that many of the nations and regions of the world were taking off economically and becoming developed nations and modernized regions. Yet China was undergoing this shocking historical leap backward that convulsed the culture in an abnormal spasm. From the beginning there were many different attitudes about this bitter historical reality. Ba Jin originally adopted the correct heroic attitude as others were doing and taught others to "forget the past." However, Ba Jin realized, with the "artistic conscience"<sup>6</sup> that a Chinese writer should have, that this was "another great tragedy in human history," that it had "great concern for all humanity," that it must "be told to the people in other countries," that "future generations must remember this bitter lesson,"<sup>7</sup> and, just like the exhibition of Nazi crimes shown at the Auschwitz Museum that he visited at the time, "it was a warning to the whole of humanity." In 1980 he visited Hiroshima and, facing the memorial in honor of the victims, he found a kind of power and conviction from that "enormous tragedy in human history" referred to by the engraved inscription on the memorial: "The mistakes of the past cannot be made again." He knew that we must forever remember this historical lesson and use the forces of the people, peace, and creativity to build a new life. To take a historical tragedy of a particular time, place, and people and to look at and ponder upon it with human consciousness as he did requires broad-mindedness, a lofty character, and sagacity. Thus, referring to how Yang Zhenning [2799 2182 1380] found "China's faults that caused me to worry" when looking at works of literature, Ba Jin explains that "scars that have not been healed are more terrifying than the so-called scar literature, and we must face reality and not conceal faults out of fear of criticism."<sup>8</sup> To a Japanese friend he said, "I see those catastrophic 10 years as a major event in human history that concerns not only China but the whole of humanity. If it had not happened in China at that time, then it would have occurred in some other place. I told a Japanese friend that we have suffered enormous misfortune, but our friends in other countries were able to avert catastrophe, and so, China, in effect, acted as a teacher by negative example."<sup>9</sup>

If we study history we will discover that many great persons have had such a humanitarian consciousness. Their field of thought and their spiritual activity have always been intimately connected to the fate of mankind. True Marxists not only are class theoreticians, but also possess a profound humanitarian consciousness. Their goal is not merely to free the proletariat from their fetters, but to "achieve victory for the whole world."<sup>10</sup> Marx clearly pointed out early on that "political emancipation itself is not the same as the liberation of humanity."<sup>11</sup> He felt that "when society is freed from such things as the systems of private ownership of property and enslavement this will manifest itself politically as an emancipation of the workers. However, the

issue does not depend merely on the emancipation of the workers because emancipation of the workers implies that the whole of humanity will be freed."<sup>12</sup> It is for this reason that Mao Zedong also said that "not only must the proletariat liberate itself, but it must free the whole of humanity. If it cannot free the whole of humanity, then in the end the proletariat itself cannot win freedom."<sup>13</sup> Similarly, we can see from the second half of the 20th century that the advanced persons of today have racked their brains trying to solve the problems of existence, development, civilization, and the future for the whole of humanity. Thus, establishing and recognizing a consciousness of humanity is not merely theoretical hot air, but is a task of considerable actual significance. Humanity, in freeing itself from the shackles of superstition and trying to find out who we really are, has become fettered by materialism. The task of modern world civilization is to become free from the fetters of materialism and place man in the most important position of primacy, to see that the value of the human is respected and not overlooked, to allow human dignity to flower and not be trampled upon, to see that man and his intuitive knowledge are elevated to a more sublime state and not made degenerate or abnormal, and to ensure that man's right to exist and develop is protected and not wiped out.

Since the days of his youth when he first began to write, Ba Jin has harbored in his mind "the ideal of loving man and loving the world."<sup>14</sup> He says, "The tenets I believe in are true living, just struggle, loving that which needs to be loved, and hating that which destroys love. There is only one God, and that is mankind, for which I am prepared to offer everything I have."<sup>15</sup> He goes on to say, "All of my many years of hard work, all of my books in which I have invested my blood and my tears, and my life's goal have been for the purpose of helping people, of bringing hope to every human being, of offering light to every man, of bringing happiness to every life, and of winning freedom for the development of every person."<sup>16</sup> In his later years when writing *Random Thoughts* he still insists that his explorations and the goal of his writing are to make man "a little better, a little purer, and to be of some use" and to "bring a little warmth to the world."<sup>17</sup> Such sentiments are driven by extreme piety, they carry with them something of a religious air, and, having lived through over half of a century of character tempering and conflict, such sentiments have become even deeper for Ba Jin. Humanity consciousness is by no means an abstract, vague concept but rather connotes something rich with substance. Ba Jin has intimately linked this consciousness together with the nation, the races, and the people. In *Random Thoughts* alone, he referred on over 10 occasions to how everything he has written, his life, and all of his love and hate "have gone forth in the hope that I can make a contribution to my nation and my people."<sup>18</sup> "The only link I have to my readers is my love for China and its people."<sup>19</sup> As far as certain persons who have misread him, censured him, nitpicked at him, and, in particular,



criticized him out of self-righteous revolutionary zeal-ousness are concerned, he says with stern indignation: "Having gone through criticism and struggle in meetings large and small over the previous years, it may be surprising that I now believe that I have at least loved my era, my life, and my country more than certain others have."<sup>20</sup> Without such steadfast beliefs and a burning heart of innocence, it would have been very difficult for this septuagenarian to eliminate the various hidden obstacles in his writing path and complete *Random Thoughts*.

### Nirvana and Reincarnation

Thus, we can go on to discuss an even more crucial and profound inner reason, namely, during this period Ba Jin's thinking underwent a massive change, leaping ahead in freedom. Not until this happened could Ba Jin adopt a new voice of heroic sonorousness. In 1976 the "gang of four" was toppled and Ba Jin "felt as if a heavy stone had been lifted from my head, and I began to sleep much better."<sup>21</sup> He felt that "there was hope for the nation." However, he was late in reversing his thought about history. This is because from October 1976 until 1978 he remained badly shaken and still suffered lingering fears of feudal-fascist persecution. His spiritual trauma still had not healed and like most other people he still had not emerged from the heavy shadows of the Cultural Revolution and modern superstition. He had yet to wake up completely. By the latter part of 1978 Ba Jin was deliberating on writing *Random Thoughts* and this is an indication that he was undergoing a new transformation. Historically, this is at least as important as his ideological awakening during the time of the May 4th Movement. Ba Jin refers to himself as a "child of the May 4th Movement."<sup>22</sup> Well then, we may as well say that *Random Thoughts* is the product of China's second ideological liberation movement of the 20th century.

The reason I put the issue this way is because in the latter half of the 20th century Chinese intellectuals have followed a very interesting course of abnormal psychology. In the period of nearly two years that followed the downfall of the "gang of four," people still looked to modern superstitions as the standard to follow and the "two whatevers" were the concrete manifestation of this sort of superstition. Ba Jin, consistent with the societal psychology of the time, carried on with the heavy ideological shackles upon his back and, as a result, in some of his earliest writings of 1977, such as *A Letter*, *The Second Liberation*, and *Looking at the Portrait of the Prime Minister*, although he made incisive criticism of the "gang of four," there are two points that are extremely noteworthy. First, basically he still used the style and terminology employed during the Cultural Revolution and the heavy aroma of modern superstition permeated his work. For example, he kept on referring to the "leader," and moreover, he prefaced the term with such words as "great," "wise," or "beloved." And when referring to the writings of the leader he also had to add the word "brilliant." It was almost impossible to find the rich and vivid emotion that Ba Jin's prose had always

had or the natural ease of style that evinced original personal reflection. Second, he still totally repudiated and sternly denounced himself, employing numerous overdone invectives like "if I do not clean up the garbage that I have brought with me from the old society, then it will stink. Only after having been the recipient of numerous criticisms has my head become clear and have I begun to pay attention to the importance of transforming my own world view."<sup>23</sup> In fact, there is really not much difference between the self-denunciation we see here and the ideological report model that was used during the Cultural Revolution. In appraising his own writings, he had still not freed himself from the various forms of trumped-up charges the revolting faction had forced on him. He felt that, though they were his best writings, "they had already served their historical mission, and so it would be better if I could get the readers to forget about them."<sup>24</sup> Thus, we can see that the profound changes in Ba Jin's thinking occurred in the latter half of 1978. This was the period of discussion about "practice is the barometer of truth," and, as this movement that called upon the people to wake up and liberate their thinking proceeded, the "spell"<sup>25</sup> of modern superstition that had ensnared Ba Jin lost its effect on him and he began to wake up to reality, regain his powers, and return to independent examination as a human being, cherishing and protecting his own dignity of character. He began to feel that "although the gang of four has been toppled, the people's minds are still enslaved."<sup>26</sup> This was an extremely important realization, for what he was saying here was actually a projection that applied to Ba Jin himself. Thus, he began on a new life's journey. The soul that had been devastated and oppressed by modern superstition and that had gone through all sorts of humiliation and contortions died. From the raging flames a new phoenix, of greater resplendency and courage, emerged before our eyes. Ba Jin now possessed the qualities of the Japanese writer Tsutomu Minakami—he was like a vigorous hawk, majestic and powerful.<sup>27</sup>

Of course, there are major differences between the change Ba Jin went through at this time and the change he underwent during the May 4th Movement period. During the latter, he was but a youth who had seen little of the world. He "believed that a society where everyone would live in pleasure was just around the corner, and that the realization of this society would mean that every sort of evil would be eliminated." This expectation was incredibly simple-minded in its optimism. The cutting edge of his critique at that time was to show the ugly cruelty of the feudal system and to give further perspectives on what an irrational society looks like. Just as today, this involved rising above past wounds. Thus, the first thing to do is to face up to and wipe away the mud on one's own character, and to heal and wrap one's wounds. To do this Ba Jin had to have a so-called "repentant consciousness" and he had to "ferret out other people's wounds as well as my own" and "never forget my own foolish acts and the chewing out I received from others."<sup>28</sup> He had to "begin to set straight

the things that happened during that time (the Cultural Revolution) by thoroughly analyzing myself," he had to say everything he wanted to say, and only by doing these things "could I attain peace of mind."<sup>29</sup> He no longer possessed the innocence of his youth where he felt that "every evil will soon be eliminated." Rather, he now was worried and was uncertain whether "I would again fall under the hypnotist's spell and change into another person for no apparent reason."<sup>30</sup> The classic characteristic of a person susceptible to this kind of hypnotism is a person with a "slave mentality," which he penetratingly analyzed in *Ten Years in a Dream*. This character feature "actually has become a possible epitaph for my 10 years of catastrophe." This was shown most pronouncedly in "the period where I was at my height of devotion to superstition, learning how to fabricate lies to insult myself, humiliating myself, trampling on myself," and, as others roared out "down with Ba Jin," he cheered them on with a thrusting fist. At the time, the Cultural Revolution was just getting under way, after following the lead of Guo Moruo and publicly indicating that his writings should all be burned, Ba Jin admitted at study meetings that his works were "all poison grass."<sup>31</sup> And even earlier on, possibly the spring of 1957, he said at a meeting that "the arts should be given to the people." This worried him a lot and he repeatedly tried to explain what he meant. As a result, he had to shoulder a heavy spiritual burden, and when the movement came along he repeatedly had to make self-criticism and be criticized by others for this statement.<sup>32</sup> Needless to say, he had to "throw rocks at others' backs" and was ordered to criticize his own friends.<sup>33</sup> Such self-cruelty is not merely a physiological or psychological phenomenon, but is a product of all sorts of pressures. So, how is it that a Chinese intellectual who has gone through both scientific and democratic baptisms and has persisted in seeking out the truth for several decades can now lose his ability to conduct independent inquiry, differentiate between truth and falsehood, persist in the truth, and resist evil? Such a complex, incomprehensible mystery became a nightmare for Ba Jin after he regained his senses. It was as if he had fallen under a hypnotist's spell.<sup>34</sup> It almost seems necessary to deal with the historical quandries that the Chinese intellectual has encountered through a special inquiry, analyzing the problem from various levels—historical, social, cultural, individual... Ba Jin's *Random Thoughts* is a piece of this sort of inquiry. He vividly portrays how he was terror-stricken, how he was at a loss about what to do, how he felt as if the sword of Damocles was hanging over his head and in danger of striking him at any minute, how in order to keep himself and his family from being disastrously implicated in crime he led a life of ignoble humiliation, and how, when the anti-Hu campaign got underway, he underwent "a complete remolding" that in the end transformed him into a different person. Looking back and writing about all of this required that he go into the deeper recesses to uncover and appraise his experiences, which is a painful process for the author. Perhaps it is one of the human weaknesses that we like others to praise us and we detest hearing unfavorable comments about ourselves. And it

goes without saying that in a world filled with intoxication, one who has seen too much of the world and lets slip a sensitive observation which leads to his being subjected to brutal struggle and unfortunate results will naturally come to resist and dispute the criticisms and censure that others have for him. And of course, a person who has known fame is going to find it even more difficult to perform self-analysis on the history of his morbid state and "dig up his own soul,"<sup>35</sup> if he does it at all. Unless one is wise and courageous and possesses an abundance of righteousness, one cannot do this at all. The way I understand it, although Ba Jin says that the "real intent in my writings is to use the ammunition I myself can provide to above all expose myself before the "public,"<sup>36</sup> he is not merely out to repent in order to save his own soul, but rather has tried, with the model of absolute sincerity provided by Lu Xun, to "uncover the suffering of those unfortunate members of our sick society, and thereby draw attention to the healing process."<sup>37</sup> Because this period was marked by a frightful spiritual degeneration that appeared as a chronic disease in the tragedy that affected both the Chinese and the whole of humanity, and because Ba Jin, after regaining his consciousness, stubbornly set out with a sense of duty to reclaim his own mind and interrogate himself for the purpose of drawing attention to the need to allow the healing process for man's pain to begin, it is for this reason that I analogize Ba Jin to a reincarnated phoenix. Having passed over nirvana, he entered the process of mopping up his contaminated blood and healing his wounds so that a new future of resplendency could be achieved. *Random Thoughts* is the embodiment of this offering to the people. It would be our loss to merely treat *Random Thoughts* as an ordinary piece of literature.

#### The Torch-Bearer for the Emissaries of Spiritual Civilization

There is another reason Ba Jin wrote *Random Thoughts*. It has to do with his relationship to other transmitters of cultural history. Ba Jin's level of thought, his moral courage, and even his writing style and feelings contain a certain inherent spiritual connection to predecessors like Herzen, Rousseau, Lu Xun, and Gorkiy, all of whom left their mark on him. The title *Random Thoughts* was born out of Herzen's *My Past and Thoughts*. Herzen saw his own book as "an accounting of one man's life, and a table of contents to the same!"<sup>38</sup> Ba Jin, referring to his own *Random Thoughts*, said that "it is just a record of thoughts and feelings I had at different times and places,"<sup>39</sup> that "it is the final accounting of my life," and that it "is a voluntary repayment of debts I owe."<sup>40</sup> Ba Jin was affected by Herzen's wondrous ability to vividly portray feelings of love and hate like a ball of fire, and so "set out to study how a writer can turn feelings into words."<sup>41</sup> As for Rousseau, Ba Jin regards him as his enlightened teacher<sup>42</sup> and "believes in what he said: 'All men are created equal.'"<sup>43</sup> At the beginning of *Confessions* Rousseau announces that "I want to expose the naked truth about one man for everyone to see. This one

man is me."<sup>44</sup> The third volume of Ba Jin's *Random Thoughts*, entitled *Honest Talk*, was inspired by this. Thus, he inevitably made the association with Gorkiy's hero Danke who pried open his own burning heart and set it down as a guide for the people. Ba Jin regards this "description as the pinnacle of writing."<sup>45</sup> In the five volumes of *Random Thoughts*, Ba Jin referred to this example nearly 10 times. Ba Jin has a profoundly deep love for this image, he yearns to achieve it with all of his heart, and it is a specific analogy of the goal of his writing. "I go on living to 'give,' not to 'take,' and a life lived in giving is a life with radiance."<sup>46</sup> This is another way of illustrating the spirit displayed by Danke. Here we should point out that Ba Jin deeply cherishes the memory of Lu Xun. "For decades it has been Mr. Lu Xun whose light has shown the way for my own burning heart." "He was courageous in his critique of society, and even more courageous in his critique of himself."<sup>47</sup> Also, Ba Jin often refers to Zola's self-sacrifice, and the search for truth shown by Tolstoy, Diderot, and Hugo.<sup>48</sup> We can see that Ba Jin was nourished by these persons, and made his way by following their footsteps. Of course, each of them had his own ideological spirit, writing style and language, and method of portrayal, each passed on something to the next, and so Ba Jin will as well.

Ba Jin is the torch-bearer for these great emissaries of spiritual civilization. Only because he was striving to achieve the goal that they had longed for and because he had received inspiration and power from their writings, did he select the *Random Thoughts* format as the mission to which he would devote himself to wholeheartedly in his later years. Thus, after finishing the five volumes, he "called them 'books of honest talk,' from which, I hope, you can see my sincerity. It's my last chance."<sup>49</sup>

#### Footnotes

1. *Literature and I*, appendix to *Seeking*.
2. *Random Thoughts*, p. 77.
3. *Ibid.*, p. 51.
4. *Ibid.*
5. *Literature and I*, appendix to *Seeking*.
6. *Honest Talk*, p. 96.
7. *Seeking*, pp. 74, 108, 76.
8. *Ibid.*, p. 41.
9. *Literature and I*, appendix to *Seeking*.
10. *The Communist Manifesto in The Collected Works of Marx and Engels*, Volume 1, p. 286.
11. *On the Jewish Problem in The Collected Works of Marx and Engels*, Volume 1, p. 435.
12. *Economics of 1844—A Philosophic Manuscript*, p. 55.
13. *A Letter to the Middle-School Guards Attached to Qinghua University*.
14. Ba Jin, *Recollections*, p. 118.
15. *A Ba Jin Anthology*, Volume 11, p. 44.
16. *Ibid.*, Volume 2, p. 4.
17. *Seeking*, pp. 47, 58.
18. *Ibid.*, pp. 39, 45.
19. *Honest Talk*, pp. 9, 46, 75, 99.
20. Preface to *Torchlight*.
21. *Oblivion—The Correspondence of Ba Jin*, p. 55.

22. *A Ba Jin Anthology*, p. 71.
23. *Recent Writings of Ba Jin*, p. 13.
24. *Ibid.*, postscript to republished *Family* which remains the same as the original, p. 47.
25. *Untitled*, p. 139.
26. *Oblivion—The Correspondence of Ba Jin*, p. 69.
27. "Ba Jin at the International Writer's Conference in Tokyo"; see GONGREN RIBAO, 25 July 1984.
28. *Seeking*, pp. 144, 108.
29. *Honest Talk*, p. 95.
30. *Literature and I*, appendix to *Seeking*.
31. *Honest Talk*, pp. 48, 49, 28.
32. *Seeking*, p. 122.
33. *Random Thoughts*, p. 161.
34. *Honest Talk*, p. 52; *Seeking*, p. 104.
35. *Honest Talk*, p. 96.
36. *Untitled*, p. 68.
37. *Mixed Accent—How I Write a Novel*.
38. Preface to *My Past and Thoughts*.
39. Table of contents to *Random Thoughts*.
40. *Untitled*, p. 208.
41. *My Past and Thoughts*, p. 394.
42. *Seeking*, p. 57.
43. *Honest Talk*, p. 65.
44. *Confessions*, p. 1.
45. *Honest Talk*, p. 59; *Seeking*, p. 143.
46. *Oblivion—The Correspondence of Ba Jin*, p. 86; *Honest Talk*, p. 151.
47. *Honest Talk*, p. 69.
48. *Untitled*, p. 45; *Selected Works of Diderot on Aesthetics*, p. 131; *Hugo on Literature*, p. 110.
49. Postscript to *Untitled*.

#### Regulations Penalizing Pornography Announced

OW2407142790 Beijing XINHUA Domestic Service in Chinese 1059 GMT 16 Jul 90

[Text] Beijing, 16 Jul (XINHUA)—The Supreme People's Court, the Supreme People Procuratorate, the Ministry of Public Security, and the Press and Publications Administration held a joint news briefing today in Beijing to announce a set of new regulations enacted by the Supreme People's Court and the Supreme People's Procuratorate—"Regulations on Specific Details in Applying Laws for the Handling of Criminal Cases Involving Obscene Materials." They also gave a briefing on the current struggle to eliminate the "six vices" and wipe out pornography.

The regulations enacted by the Supreme People's Court and the Supreme People's Procuratorate are based on extensive investigations and studies. They are aimed at providing judicial explanations on legal issues encountered in the struggle to eliminate the "six vices" and wipe out pornography. According to the regulations, criminals making, selling, spreading, and smuggling obscene materials may be sentenced to fixed terms or life imprisonment or may even deserve the death penalty.

From 1989 to May 1990, a total of 1,610 people were reportedly arrested in the country with the approval of

the procuratorial organs at various levels on charges of making, selling, spreading, or smuggling obscene materials. From July 1989 to May 1990, the people's courts at various levels concluded trials of 785 cases in this regard and sentenced 1,162 people.

Addressing the news briefing, Lin Zhun, vice president of the Supreme People's Court, said: The purpose of the new regulations is to further deepen the struggle against pornography and the "six vices," strike harder at those criminals who make, sell, spread, and smuggle obscene materials, and try to create a better social environment for reform and opening to the outside world. We want to use the mass media to seriously warn those criminals making, selling, spreading, and smuggling obscene materials that they must immediately discontinue their criminal activities, turn themselves in, and confess their crimes so that they may receive lenient treatment. If they continue their criminal activities, they are bound to be punished severely.

Lin Zhun asked the people's courts at all levels to truly strengthen their leadership over the struggle against pornography and the "six vices" and grasp this struggle firmly and earnestly as a major task in dealing hard blows to severe criminal offenses. Criminal cases involving obscene materials prosecuted and passed on to the court must be tried promptly. Particular attention should be given to this task in those localities where this kind of criminal activities are rather rampant, especially where such crimes have shown an upturn recently. No time should be lost in giving severe punishment, according to law, to those "making and selling obscene materials" and other criminals belonging to the "six vices" category. We should further expand the scale of the struggle against pornography and the "six vices" so as to frighten, divide, and break up the criminal elements; inspire and educate the masses; and make due contributions to purifying the social environment and ensuring smooth progress in conducting reform, opening up to the outside world, and economic development.

Feng Jinwen, deputy procurator general of the Supreme People's Procuratorate, urged procuratorial organs at all levels to comply with the above-mentioned "regulations" in dealing with various cases and to approve arrests and institute prosecutions in strict accordance with the law. In no way should a procuratorial organ be ineffective in striking at such crimes. It is imperative, he said, to keep to the principle of meting heavy and prompt punishment according to the law, step up the investigation of such criminal cases, and suppress the rampancy of criminal elements by taking advantage of the current favorable condition where a "hard strike" in this regard is being carried out everywhere.

He said: While giving hard blows to the criminal elements according to the law, we should use comprehensive measures to make the work a real success. This means we must grasp, strike, prevent, educate, and reform at the same time. Procuratorial organs at all levels should take positive action to coordinate and cooperate with public security organs, courts, and press and publications departments in mobilizing all factors that can be mobilized to undertake this work. They should try to gain support from the public and launch an extensive propaganda and education campaign. In addition, efforts should be made to reinforce management and to improve regulations and rules so as to gradually eliminate the "source of obscene materials" and the "six vices" as a way to radically solve the problem.

Yu Lei, vice minister of public security, spoke on the struggle waged by public security organs to eliminate the "six vices." He said: A unified nationwide action was started on 13 November last year concentrating on the elimination of the "six vices." From that time up to May this year, the public security organs at all levels in the country investigated and dealt with more than 450,000 "six vices" cases, striking a hard blow to the rampant "six vices" criminals. The trend prevailing in the past few years where the "six vices" have developed and spread unchecked has now been put under effective control. As can be seen from public security cases investigated and dealt with, there has been a decline in the number of such cases as practicing prostitution; visiting prostitutes; making, selling, and spreading obscene materials; gambling; and swindling money and other activities by means of superstitious practices.

Yu Lei said: We must soberly note that the dwindling of "six vices" activities is a result of sustained work of attacking, investigating, and banning them. If we relax this work slightly, "six vices" activities may surge up again. Moreover, the reasons for the creation, existence, and development of the "six vices" are very complicated. These are intricate social problems, which cannot be thoroughly solved through a few special struggles or intensive actions. Such being the case, it is necessary to uphold the idea of waging a long-term struggle, regard the elimination of the "six vices" as a regular task, integrate it and the work of fighting crime, and public security management into an organic whole, and have thorough and constant control. Then, he set forth concrete demands for public security organs at all levels in the country in order to achieve success in eliminating the "six vices."

A speech was also delivered by Song Muwen, deputy head of the state work group for screening and rectifying markets for books, newspapers, publications, and audio and video tapes, and concurrently the director of the Press and Publications Administration. His speech dwelt on the current situation in the antipornography struggle.

### Advances Noted in Navy's Destroyer Fleet

90CM0280A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 213, 16 Jun 90  
pp 40-49

[Article by Ling Yu (0407 1342): "New Direction for Chinese Communist Navy Destroyer Fleet"]

### [Text] Chinese Communist Navy Composed of Five Service Arms

The Chinese Communist Navy is composed of five service arms: a Submarine Force, a Service Ship Force, a Naval Air Force, a Marine Corps, and a Coastal Defense Force. The Surface Ship Force is the largest of these five forces. According to *Jane's Fighting Ships* statistics for 1989-1990, the Chinese Communist Navy currently has approximately 1,100 combat vessels (not including landing ships and mine warfare ships). This includes approximately 105 submarines, and approximately 900-odd surface vessels. The nucleus of the Chinese Communist surface force is 20 destroyers.

### Destroyer Division Founded at Qingdao in 1954

When it was first founded, the Chinese Communist Navy had only some old ships from the former Kuomintang government navy. It had no destroyers. On 22 July 1954, the Chinese Communist first destroyer division was founded at Qingdao. It consisted of two World War II "Gordy"-class destroyers imported from the USSR and renamed the Anshan and the Fushun.

The "Gordy"-class destroyers were a mine warfare destroyer that the USSR built using designs brought in before World War II from the Italian Odero-Terni-Orlando Company (the predecessor of today's renowned Oto-Melara Company). The Nikolayevsk Shipyard on the Black Sea provided components for them, and they were fitted out and launched at the Soviet Union's Pacific Fleet shipyard. The Anshan had formerly been the Soviet fleet's "Attack," a ship whose keel was laid in 1935, which was launched in 1938, and which was commissioned in 1940. The Fushun had formerly been the "Freezing Cold." Laid down in 1935, it was commissioned in 1942. In July 1955, the year following founding of the first destroyer division in the Chinese Communist Navy, an additional two Soviet "Gordy"-class destroyers, the Resolute and the Diligent, were also transferred to the Chinese Communist Navy and renamed the Changchun and Jilin. The Chinese Communists termed these four destroyers the "07" class.

The "07"-class destroyers have a long bow with a fore-castle. They are 112.8 meters long, 10.2 meters abeam, have a draft of 4 meters, a standard displacement of 1,660 tons, and a full displacement of 2,451 tons. They are equipped with two 48,000-horsepower geared turbines and two shafts. Maximum speed is 34.6 knots, and their economical cruising speed is 18 knots. They are self-sufficient for 10 days, have an 800-nautical-mile combat radius, and carry a complement of 280 men.

When the USSR transferred the "Gordys" to the Chinese Communists, the main shipboard armament was four hand-served single 130-mm gun turrets fore and aft having a firing rate of 12 shells per minute, a range of 25,000 meters, and a projectile weight of 33.4 kilograms. A single hand-served triple mounting 533-mm torpedo tube was located fore and aft of the abovedeck structure amidships. These were used to fire unguided direct impact-type vapor gas [zhengqi wasi 5544 3086 3907 2448] torpedoes in attacks on surface ships. During the 1950's, torpedoes were still an important and effective weapon in antiship warfare. For a time, the Chinese Communists termed this type ship "torpedo attack ships."

In addition to its guns and torpedoes, yet another feature of the "Gordy"-class destroyers was their ability to carry large numbers of water mines for laying, and their mission of blockading enemy ports and sea areas. Forty-eight "Anchor 1" anchored mines or 32 "Bottom 1000"-type bottom mines could be carried aboard ship.

"Gordys" had four manually served single-barrel 37-mm antiaircraft guns as their aerial defense firepower. On the stern were located two BMB-II depth-charge mortars and two depth-charge throwers equipped with a Pegasus Model 2M high-frequency ship hull sonar for limited antisubmarine warfare.

### Chinese Communist Navy Enters Missile Transition Stage in 1955

In November 1966, the Chinese Communists successfully reproduced a Soviet SS-N-2 "Styx" ship-to-ship missile, which they named "Shangyou 1" (SY-1), the term "shangyou" implying a "striving to go upstream." This marked the beginning of the Chinese Navy's entry into the missile transition stage.

In May 1969, the first "07" destroyer to be modernized sailed into Hongqi Shipyard in Dalian. Its refitting was completed in February 1970, and it put to sea for missile test firings. Thereafter, between 1971 and 1974, an additional three "07" destroyers entered the dock for modernization. The most important refitting was the substitution of twin rotating twin "SY-1" ship-to-ship missile launchers for the previous two triple-mounting torpedo tubes, and the installation on the main mast of a Fangjie radar. The four original single-barrel 37-mm antiaircraft guns were also replaced with twin 37-mm machine guns. Following refitting, Western experts termed the "07's" the "Anshan" class.

Even though equipped with guided missiles, "Anshan"-class destroyers are still more than 50-year-old ships scarcely able to perform effectively in modern sea warfare. Western military observers note that two of the "Anshan"-class destroyers have been put on reserve duty, and the remaining two are currently on duty in the North China Sea Fleet, possibly only as training ships.

### The "051" "Luda"-Class Missile Destroyers

Communist China's first navy commander, Senior Admiral Xiao Jingguang [5618 0513 0342], proposed as long ago as 1954 a system for the three-step development of China's shipbuilding industry as follows: The first step was foreign assistance in acquiring complete materials, equipment, and technology for assembly and manufacture in China to establish a foundation for shipbuilding. The second step was to digest and assimilate foreign techniques to produce reproductions, gradually achieving self-sufficiency in materials and equipment and becoming capable of partial fabrication. The third step was to do designing inside China, using China-produced materials and equipment and doing complete research and development of first-generation weapons for the Navy. It was on the basis of the above thinking that the Chinese Communist Navy began to use components provided by the USSR to equip and manufacture five types of vessels in Chinese shipyards during the 1950's. By the end of the 1950's, a total of 116 ships were either turned over or built. During the reproduction and improvement stage, Admiral Xiao Jingguang accompanied a Chinese Communist military delegation to Moscow again in November 1957 where he held several discussions with the Soviet navy commander, Admiral of the Fleet Sergei Georgievich Gorshkov, and other experts about importing new naval technology. This laid a foundation for the signing in 1959 of the navy technology agreement between China and the USSR. This agreement provided for the importation of "Kotlin"-class destroyers, which were first-line destroyers in the Soviet Navy at that time. However, because of Moscow's recall of its experts in August 1960 and the halt to shipments of materials and equipment, Beijing was unable to produce "Kotlin"-class destroyers. Nevertheless, the Chinese Communist Navy already possessed some technical data about that class ship.

In 1960, The Chinese Communist Navy began to organize research and development work on a Chinese-made missile destroyer. Admiral Xiao Jingguang chaired a research and development conference. This new ship was called the Model "051." However, because of current national economic difficulties and the USSR's deep influence on the Chinese Communist Navy at that time, efforts were placed on development of submarines and nuclear missiles to the neglect of surface ship development. Consequently, "051" missile destroyer research and development plans were shelved. Actually, the Chinese Communist military was also influenced by Nikita Khrushchev. At that time, Khrushchev maintained that the navy had "entered the rocket age," and that aircraft carriers were "floating marine coffins." He said that the large number of submarines and nuclear missiles were sufficient, and he even went so far as to order the dismantling of the Soviet Navy's nuclear warship, the "Sverdlovsk"-class cruiser. Fleet Admiral Gorshkov made a tremendous effort to keep most Soviet cruisers. On 28 July, the CPC Central Committee Military Affairs Commission drew up "Decisions on Navy Construction," which directed that the Navy "should emphasize

development of submarines," and "should particularly pay attention to the adoption of new technical achievements in guided missiles and nuclear power." It touched only lightly on surface ships, saying that "corresponding development of needed surface vessels" is also necessary.

### Building of "051" Destroyers

In 1965, in order to meet needs for escort protection during long-range missile tests, Liu Huaqing [0491 5478 3237], deputy director of the National Defense Science and Technology Committee at that time and concurrent director of the Academy of Ship Research, once again began research and development of guided-missile destroyers. In December 1968 work began at the Hongqi Shipyard in Dalian on the first "051" guided-missile destroyer, and in December 1971 it was commissioned for service in the North China Sea Fleet. This ship was Chinese Communist designed and built. In terms of both materials and equipment, it was entirely a first-generation intermediate surface capital ship in whose construction 22 provinces and cities and more than 260 plants had participated. In 1972, Admiral Xiao Jingguang wrote a special report to Mao Zedong requesting approval for finalized design production of "Han"-class nuclear submarines and "051" nuclear destroyers. The Navy appraised and finalized the design of the "051" in 1972. Western countries termed this warship the "Luda"-class destroyer.

The design of the "051" destroyers largely resembled that of Soviet "Kotlin"-class destroyers. The "051" hull had a high freeboard flush deck, but its dimensions, equipment, and many details differed from the "Kotlin"-class destroyer. The "051"-class destroyers were 132 meters long, 12.8 meters abeam, had a 6.04 meters draft, and displaced 3,536 tons of water when fully loaded. They were powered by a Model 453 gas turbine producing 172,000 horsepower, and had two shafts. The turbine performed reliably, was easily maintained, and the ship was able to sail at sustained high speed longer than ships equipped with either diesel engines or internal combustion turbines, though it consumed more fuel than diesel engines. The "051" destroyer's maximum speed was 36 knots, which compares favorably with that of destroyers in service in all countries today. Its economy cruising speed was 18 knots. It was self-sufficient for 10 days, was able to withstand force-9 winds, and would remain afloat with three contiguous compartments flooded. Its combat radius was 1,400 nautical miles, and it had a complement of 325.

The early "051" destroyers were armed mostly with two rotating triple SY-1 ship-to-ship missile launchers, but the ships had no second launcher-loading capability. As experience with the ship increased, Chinese Communist scientific and technical personnel discovered this missile had several shortcomings: It was unwieldy, the liquid fuel for the guided missiles was rather troublesome on shipboard, flight altitude was far from ideal, and it did not resist electronic jamming well. This was of particular

importance following the October War in the Middle East in 1973 when Israel used electronic jamming effectively—not a single one of 50 Soviet-made “Styx” guided missiles launched by the Arab countries (Egypt and Syria) hit its target. In view of foreign combat experiences, Chinese Communist scientific research personnel summarized both domestic and foreign experiences to improve SY-1 performance, making technical improvements in seven regards as follows:

#### **Learning From Foreign War Experiences To Improve Warship Performance**

1. In order to improve the guided missile's electronic countermeasure capabilities, one after another of several guidance devices was successfully researched, developed, and replaced, including radar and television. Several improved guided missiles were developed at the same time.
2. An improved radio altimeter was installed to improve low-altitude penetration capabilities.
3. The liquid-fuel tank was made stronger to permit increased storage, greater missile power, and increased range.
4. Research on ocean waves was conducted to enlarge knowledge about working environment requirements.
5. Various kinds of loading platforms were transplanted for use in shore defense, aboard ships, and aboard aircraft.
6. Study was made of liquid fuel prepackaging techniques in the blazing of new trails for long-term effective storage.
7. Microcomputers and modules were used in fire-control systems to improve system reliability.

#### **Advent of “Haiying” Guided Missiles**

After improvement and upgrading of the missiles, the Chinese Communists named them “Haiying.” At the end of the 1970's, the Chinese Communists began to replace the SY-1 missiles aboard the “051” missile destroyers with the “Haiying-1” (HY-1).

In addition to the ship-to-ship missile, the bow and the tail of “Luda”-class destroyers were also equipped with one semiautomatic twin 130-mm gun turret having a firing rate of 17 rounds per minute and a 29,000 meter range. The shells weighed 33.4 kilograms. The gun was operated in coordination with a gun-control device, and could be used in attacks on surface vessels, shore targets, or air targets. In reality, it was used mostly against the shore and ships.

“Luda”-class ships had no air-defense missiles. During the early 1980's, the British Vosper Thornycroft Company was commissioned by the Chinese Communist

Navy and signed an agreement to refit eight “Luda”-class destroyers with British Space Navigation Company-made “Sea Dart” ship-to-air missiles, as well as to modernize the shipboard electronic equipment. However, the matter came to nothing later on because the Chinese Communists were unable to bear the expense. Currently, all of the onboard air defense weapons are guns. This includes four twin 57-mm (37-mm on some ships) antiaircraft guns, and four single-man operated twin 25-mm machine guns.

The bow of the ship is equipped with two Chinese Communist-researched and -developed 12-tube antisubmarine rocket depth-charge mortars, which are known in Western countries as the Model FQF-2500. On 4 January 1987, the Model “051” “Xining” completed entirely automatic firing tests of FQF-2500 rocket missiles at sea using a new model director. The launcher is characterized by high accuracy, small aiming error, and short combat readiness time. Some reports noted that the range of this rocket depth charge is as much as 3,000 to 5,000 meters. The ship carries 72 charges. The stern of the ship carries four Soviet-style BMB II large-rifled depth-charge mortars and two launchers. The ship carries 48 projectiles. A ship hull sonar is mounted on the bottom of the ship, and some ships also are equipped with a bow sonar.

The “051” destroyer can also lay mines. Normally, 28 “anchor”-type anchored mines or 20 “Bottom 1,000” bottom mines are carried aboard.

#### **Weaknesses of the Model “051”**

Some naval experts who have visited Model “051” missile destroyers have said that the ship is rather sturdily constructed, but that it has a clumsy feeling. There is no onboard air regulating equipment, nor are there any nuclear, biological, or chemical warfare defense systems. It is particularly ill-suited to the needs of future large-scale sea warfare. Living conditions in crew quarters are poor. The quarters consist of large compartments for between 30 and 40 men, and hammocks are used in the compartments. Advanced world navies today pay extraordinary attention to onboard living conditions. This is because unless the morale and physical condition of the crew can be maintained, it will be impossible to ensure that the best performance can be obtained from the advanced weaponry with which the ship is equipped. When the ship is not engaged in combat, the cooks on the “051” have to squat on the deck to wash vegetables, and the food that the sailors eat is cold in winter, hot in summer, and has to be eaten on deck in all kinds of weather. The Model “051” has strong attack capabilities against other ships and the shore, but its air defense and antisubmarine capabilities are weak.

According to statistics, the Chinese Communists have built a total of at least 16 “051” destroyers from the time that the first one went into service in 1971 until 1987. This included the seven bearing the pennant numbers 105 (the first one built) through 111 built at Dalian, the



four bearing the pennant numbers 131 through 134 built in Shanghai, and the final six bearing the pennant numbers 160 through 165 built in Guangzhou. Reportedly, however, the "051" destroyer bearing pennant number 160 was sunk in Zhanjiang military harbor in 1978 in a clandestine bombing incident perpetrated by a Vietnamese. Today 16 are in service.

#### **"051" Destroyers Take Part in South Pacific Intercontinental Ballistic Missile Launch**

On 28 April 1980, the Chinese Communist Navy sent a marine task force to take part in the full-range test launching into the South Pacific region of an intercontinental ballistic missile. The task force sailed from Shanghai and was composed of 18 destroyers and four helicopters, including six "051" missile destroyers. On its way to and from the South Pacific test area, the formation conducted lateral resupply at sea, which made Western countries reevaluate the Communist Chinese Navy's oceangoing capabilities. The marine task force was under the command of commander and political commissar Liu Daosheng [0491 6670 3932]. Yang Guoyu [2799 0948 1342], Tian Zhenhuan [3944 7201 3883], Gao Xizeng [7559 1585 2582], and Nie Kuiju [5119 1145 5112] were deputy commanders; Zhang Dianzhong [1728 3013 1813] was deputy political commissar; Zhang Xusan [1728 1645 0005] was chief of staff; Yang Baoxiang [2799 1405 7013] was political department director; and Hou Xiangzhi [0186 0686 0037] was logistics commander. The task force returned to Shanghai on 1 and 2 June of the same year.

#### **Enters Western Pacific for Blue Water Training**

On 19 October 1980, the South China Sea Fleet assembled two "051" destroyers (Nos. 161 and 162), two missile escort ships (Nos. 506 and 509), No. 154 tug, and No. X950 composite supply ship into a formation, which passed through the Balintang Channel and entered the western Pacific to conduct blue-ocean training exercises. This was the first time that Chinese Communist surface ships conducted blue-ocean training. En route, two sailors were swept from the deck by a large wave and vanished.

On 16 November 1985, the Chinese Communist Navy paid its first formal call on a foreign country since its founding. East China Sea Fleet Commander Nie Kuiju commanded a formation composed of "051" destroyer No. 132 and composite supply ship No. X615, which raised anchor at Wusong Pier in Shanghai and sailed to Pakistan, Sri Lanka, and Bangladesh. The formation returned to Shanghai on 19 January 1986.

#### **Modernization and Refitting of the "051's"**

In recent years, the Chinese Communists have modernized and refitted some of their "051" destroyers to meet modern navy requirements.

After refitting on 24 May 1987, "051" destroyer No. 105 of the North China Sea Fleet successfully completed its first test voyage in Bohai Gulf. The main refitting was the removal of the double 130-mm gun turret and the double 57-mm machine guns at the stern, and the installation of a helicopter takeoff-and-landing platform, and a "Porpoise" helicopter hangar with room for two helicopters. Other improvements included more than 40 replacement and newly added items, notably an antisubmarine electronic command system, radio communications equipment, an onboard antisubmarine system, a satellite navigation system, and a sea supply system. This was the first destroyer in the Chinese Communist Navy to be equipped with a helicopter platform and hangar.

In order to improve air warning capabilities, the Chinese Communists equipped "051" destroyers Nos. 132 and 110 with a "Haiying" three-dimensional radar and enlarged the ships' bridges. The next step in the refitting of these destroyers may be the refitting of the ship-to-air missile systems on the Chinese Communist built "HQ-61 ships.

#### **New Generation of Chinese Communist Missile Destroyers**

Even while refitting their "051" guided-missile destroyers, the Chinese Communists have begun to research and develop a second generation of destroyers. In order to shorten the research and development cycle, the Chinese Communists have imported from the United States five general-purpose electric Model LM-2500 combustion gas turbines for use as the main engine in a new class of destroyers. The LM-2500 is the main power plant used in the new naval vessels of the United States and its allies, and its efficiency is very high. In addition, The Chinese Communists have also imported from France a Creusot-Loire 100-mm compact naval gun for use on a new class destroyer.

#### **New Situation Regarding Chinese Communist Second-Generation Destroyers**

The probable situation with regard to Chinese Communist second-generation destroyers is as follows: The hulls will be of the flush deck type, have a displacement of approximately 4,000 to 5,000 tons, and use combustion gas turbine or diesel engine joint power plants (CODOG). The gas combustion engine will be the American LM-2500, and the diesel engines will be Chinese reproductions from French patents. New armaments will be: the C-801 (Yingji-8) (YJ-8) ship-to-ship missile, or even a new C-802 missile; for air defense, the Hongqi 61 ship-to-air missile will be used. Guns will include the French-made Creusot-Loire 100-mm compact gun turret and the Chinese Communist-manufactured "69" twin 30-mm machine gun turret. The antisubmarine weapon may be the FQF-2500 rocket depth-charge mortar with which the "051" destroyers are armed, with the addition of a triple 324-mm light antisubmarine self-guided torpedo tube. The stern will be fitted with a helicopter platform and hangar, and will carry a Harbin "Zhi 9"



("Porpoise II") helicopter for antisubmarine work and for relay control and guidance of over-the-horizon missile

attacks. It is estimated that the first ship of this new class of destroyers will be completed this year (1990).

Table Showing Chinese Communist Navy Destroyers in Service

Ship Model	Class	Displacement (Tons)	Pennant Number	Fleet Subordination	Main Armament	Remarks
07	Anshan	Standard 1,660; full load 2,451	101	North China Sea Fleet	Two twin SY-1 ship-to-ship missile launchers; four single-barrel 130-mm gun turrets	50-year-old ships; modernized between 1969 and 1974
			102	Ditto		
			103	Ditto		
			104	Ditto		
051	Luda	Standard 2,844; full load 3,536	105	North China Sea Fleet	Two triple HY-1 ship-to-ship guided-missile launchers; two twin 130-mm gun turrets; two 12-barrel rocket depth-charge mortars	First ship built; entered service in 1971; refitted in 1987 with a helicopter deck and hangar; carries two "Zhi 9" helicopters; stern gun turret removed
			106	Ditto		
			107	Ditto		
			108	Ditto		
			109	Ditto		
			110	Ditto		Equipped with a three-dimensional "Haiying" radar; bridge enlarged
			131	Ditto		
			132	East China Sea Fleet		Equipped with a three-dimensional "Haiying" radar; bridge enlarged
			133	Ditto		
			134	Ditto		
			161	South China Sea Fleet		
			162	Ditto		
			163	Ditto		
			164	Ditto		
			165	Ditto		

#### 'Legal Code' Necessary for Military Administration

90CM0257A Beijing JIEFANGJUN BAO in Chinese  
25 May 90 p 3

[Article by Qi Changming (7871 7022 2494): "Military Administration Must Be Based Mainly on Standards"]

[Text] There are two basic methods of military administration. You can use "legal code" [dian] or you can use "orders" [ling].

What is "legal code," then? It is the general term for all current regulations, ordinances, programs, and training plans. It also includes the general guidelines, detailed statutes, rules, stipulations, standards, educational discipline, and educational conventions formulated by high-level military organs which have been granted administrative and legislative powers. Legal code is military law and fundamental rules that have stability and form a system. It is the basic will of those who run the military.

The "orders" referred to in this essay refer specifically to administrative orders or decrees that lack the qualities mentioned above, and which are targeted only at individual persons or events.

Whether a specific measure is a "legal code" or an "order" cannot be determined solely on the basis of form; one must distinguish between them on the basis of their fundamental nature.

"Orders" can make up for the deficiencies of the "legal code" and play an important role in regulating the behavior of troops; therefore we classify it as one of the most fundamental ways of administering the military. However, the following axiomatic truth cannot be ignored: Only the "legal code," not "orders," can play the decisive role in building up the military.

Military administration cannot rely primarily on "orders." Why not? Because "orders" are random and piecemeal. They are not formulated through a process of careful thought, amendment, and even experimentation

when necessary, as is the case with a "legal code." "Orders" can easily give rise to discrepancies depending on the persons involved, and arbitrariness easily creeps in. Military administration, however, cannot be random or fickle. It cannot lack a unified will or legal controls. Most of all, it cannot be arbitrary.

The more the military is affected by random and fragmented orders as it is being built up, the more contradictions it will encounter, and the farther it will stray from set goals.

There is a great difference between administering the military and playing a video game or even fighting a battle. Administration cannot be frequently adjusted in accordance with rapidly changing conditions and feelings.

"Legal code," furthermore, is a key to the normal evolution of the military and other social institutions. Relative to particular decisionmaking groups and certain periods of time, the "legal code" represents the most mature philosophy of military administration. It plays an irreplaceable role of overall control, regulation, planning, and guidance.

As early as 2,000 or 3,000 years ago, China's "rulers of the multitudes" understood that in leading large armies or ruling over a multitude of people, the most important thing was to formulate and promulgate a prestigious legal system.

When the "legal code" is in the ascendancy, there are few annoying administrative restrictions upon people.

The essence of the "legal code" is "rule by law." More and more soldiers are coming to realize this point.

Under normal peacetime conditions, if high-level organs of regulation and control are to use new patterns of thought to administer the military (for example, by implementing combat strength standards), the only thing they can do is to first formulate or revise the "legal code." They cannot ignore this and try some other method.

Organs which are not good at using "legal code" to administer the military will inevitably be quite busy, and the fruit of their efforts will conflict with the "legal code." It can interfere with the normal building and management of military forces.

In an academic sense, among all the different ways of administering the military, abandoning the military "legal code" and employing "orders" is one that tends to be relatively error-prone and inefficient. On the other hand, if fundamental military regulations and military rules are used to regulate and control the building and management of military forces, then relationships will be in harmony and efficiency will be high.

Thus, enlightened military administrators put first priority on building up the foundation of the "legal code." They pay close attention to using the "legal code" to

manifest their own will and to regulate and control troops. This is how they ensure the normal building up of military forces.

Those who are adept at military administration also have another characteristic. They are good at inducing organs of leadership to apply most of their energy to the formulation, revision, dissemination, and implementation of the "legal code," and to supervise the daily activities of the troops. They do not merely make people in such leadership organs spend all day writing cutely phrased telegrams.

Military leaders who are excellent administrators also understand that "to have a 'legal code' and ignore it is the same as rejecting it." Thus, they use reward and punishment to uphold the prestige of the "legal code."

The person in history who made the best use of a "legal code" in military administration was Zhu Geliang of the Three Kingdoms period. Zhu Geliang administered the military just as he administered the state of Shu—by taking care to first "establish the fundamental." In his view, "the fundamental" was a set of "permanent laws and basic rules."<sup>1</sup> He believed that "the chaos of the three armies was due to the fact that everyone acted according to personal whims. When an enlightened ruler sets forth a plan, there must be a sense of priorities. General principles must be established first, and detailed regulations must be established afterward... Once the general principles have been clarified, the detailed regulations will fall smoothly into place."<sup>2</sup> Not only did he "have a law for all things," he also gave great importance to using "education" and "dissemination of knowledge concerning the law" to let his officers and men know what the "legal code" prohibited and what it encouraged. This was known to history as "rigorous laws and education." After being put in order, the armies of Shu "became solid in the fundamentals" and operated as a highly disciplined and powerful military force. "His troops came and went as if guests, never pillaging or bullying people outside the villages who were cutting grass or gathering firewood. They behaved as if in their own state. When he commanded his troops, they remained as solid as a mountain when ordered to stay in one place, and traveled like the wind when ordered to retreat. When his troops sallied forth, the world shook, but the people felt no fear."<sup>3</sup>

Although not well-loved by the broad masses of people, Qing Taizong, also known as Huang Taiji, and Zeng Guofan, the modern militarist from the landlord class, were both some of the most skillful employers of "legal code" in military administration. The troops they led were all formed through the use of the "legal code," and their combat capability was formidable. Huang Taiji paid very close attention to perfecting the military "legal code" and announcing laws and disciplinary requirements. Furthermore, he was lenient to no officer or soldier who violated his "legal code." Zeng Guofan used severe regulations such as the "Xun Jia Gui" [6064 1367 6016] and the "Xun Ying Gui" [6064 3602] to train his

'troops, and this has been acknowledged by historians as that singular phenomenon called the Hunan Army method of military administration.

Using the "legal code" to administer the military is also a major characteristic of modern military establishments. For example, the operational philosophy and development plans of the United States Army is readjusted and unified every time the "operational plan" is revised (roughly once every four to six years). The "operational plan" acts like a regulating device, and military development changes in an orderly way under its regulation and control.

China's military has always given great importance to using a "legal code" to administer itself. Especially since the 1950's, the Central Military Commission has passed an entire set of rules and regulations, and it has revised and supplemented them as situations have changed. The "three regulations" on cadre work ("Basic Plan for Building Up the Military at the Grassroots Level," "Military Training Regulations for the People's Liberation Army," and "Regulations on Management of Weapons and Equipment in the People's Liberation Army") which have been passed in response to the special characteristics of the new period have enabled further perfection of the "legal code" system in China's military. These measures, targeted as they are at "the fundamental," will undoubtedly have a far-reaching impact on the effort to accelerate the development of China's military.

The "legal code" has become a major part of the "superstructure" of the modernized military. It is a "stele" that commands the solemn respect of the entire military, and encrusted in this "stele" are the achievements of modern military science, law, and management, as well as an unbreakable law and will.

This proposal that "legal code" be used to administer the military is in no way an attempt to suggest an alternative to "administering the military according to the law." The definition of "law" is very broad. This essay means to highlight one important aspect of it—"legal code"—in order to facilitate the establishment of better military administration.

#### Footnotes

1. *Bian Yi*, Volume 16.
2. *Ibid*.
3. *History of the Three Kingdoms*, Shu Chapter, "Biography of Zhu Geliang," quotation taken from *Yuanzi* by Pei Songzhi.

#### Test Pilots Conduct Scientific Research Flights

OW1207063790 Beijing XINHUA Domestic Service in Chinese 0754 GMT 10 Jul 90

[By reporter Sun Maoqing (1327 5399 1987) and correspondent Zheng Weimin (6774 0251 3046)]

[Text] Xian, 10 Jul (XINHUA)—The first group of Air Force test pilots, numbering 14, all with regular college education, flew high altitude and high speed fighters in the blue sky today to begin their scientific research test flights. This shows that China's contingent of test pilots has reached a higher level in terms of education.

The 14 test pilots were recruited by the People's Air Force in 1983 after they graduated from regular colleges in various localities. After being trained in a basic flying school, an aviation academy, and an Air Force unit, they became qualified pilots with a double bachelor's degree in engineering as well as in military science. Last spring, they joined a test flight regiment of the Air Force and began to be trained in test flying. Now, they have learned test flight theories and are able to use aeronautic English to communicate with ground units. After entering the test flying stage, they will fly fighters and bombers to carry out their regiment's tasks of scientific research and strategic test flights.

The director for today's flights was Huang Bingxin, commander of the Air Force test flight regiment, who is also known as a "test flying hero." He told the reporters that selecting test pilots from among pilots with regular college education represents a reform of the test pilot training system in our country. After a period of test flying here, he said, these fliers will be sent to test flight bases in various localities.

#### Military Training for Students Builds Integrity

OW1207135390 Beijing XINHUA in English  
1010 GMT 12 Jul 90

["Feature: 'Student Military Training Unique Experience'—XINHUA headline]

[Text] Shijiazhuang, July 12 (XINHUA)—(XINHUA correspondent Wang Nan) It was six o'clock in the morning when Luo Jun was roused by a bugle call. He quickly put on his green uniform and strode out of his room.

Only four minutes later the 18-year-old Luo was standing at attention among his fellow cadets for morning drill.

Such nimbleness would have seemed inconceivable only ten months ago, when Luo and his classmates, who were all Beijing University freshmen, came to the Shijiazhuang Military Academy for one year's military training.

"The training has been really unforgettable," Luo Jun said. "I am truly happy to be here for this unique experience. I have learned a lot from it."

Such optimism was not typical last October when 728 freshmen arrived at the suburban academy. The 18-year-olds, accompanied by their parents, were not accustomed to early rising, being shouted at by drill instructors or the self-criticisms that had to be made in public for even minor mistakes.

Despite all that, most of the students still hold that they learned a lot from the military training and they began to know what life was really like.

"I think I am more mature than before," said student Wang Jing. "In the past we used to complain when we came across problems, but now we feel we are duty-bound to overcome them. The military training has taught me how to adjust and engage in a new lifestyle."

At the academy the students learned various kinds of military techniques, including use of arms, marching, and camp and field training. They also had to learn how to cook, collect waste and plant trees. The cadets learned to be meticulous about everything, including the position of a hat on the bed and even the position of the toothbrushes in the washroom.

"I was deeply impressed with our first class of individual drilling," said Cao Jun, a physics major. "It was raining and we had just put on our new uniforms. But we had to lie on the wet ground. When the class was over we were absolutely filthy."

The students will also never forget their eight-day camp training. In early May they marched 250 km from Xibaipo, in northern Hebei Province. They cooked for themselves and at night the students slept in caves or in small classrooms.

"My feet became swollen then," said Qu Wenyan, "but I could not fall behind." During the eight-day march, no one dropped out.

Chen Hui was the gold medal winner of the 21st international chemistry olympiad last year. When Chen checked in at the academy last year he was worried that

his time would be wasted. "Although I only had a chance to read a few books, I don't regret it," he said.

Another student said that the military training taught him and his classmates how to act with integrity and how to bear all kinds of hardships without complaining.

The students also found themselves more united than before. "At the academy all the students were good friends, and we talked about everything with each other. If one was in difficulty, all the others would rally round to help," said Huang Weiwei, a girl student from Beijing.

Wutikuer [as received] comes from a city on the Sino-Soviet border in the Xinjiang Uygur Autonomous Region and is a Muslim. "My classmates always helped me with my Chinese language studies," he said.

According to the academy timetable, military training, academic instruction and political study each occupied one third of the agenda. The academy has many items of advanced teaching equipment, some of which are more advanced than those at Beijing University.

Wu Afeng, one of the political instructors of the female students said that the girl students were especially hard to train. "They are too sentimental and often burst into tears. At first they did not know why they had to stand in line whenever they were required to do something," she said, "but now, with the training, they are used to all that and can do it better than I imagined."

"When I was at the academy I was homesick and missed Beijing University," said a girl student. "But when I return to Beijing I will miss the military academy."

"I do not like to jump to conclusions about the one-year military training," said another student, "but everyone will realize its long-term meaning for our whole life some day."

## CENTRAL-SOUTH REGION

### Two Hainan Cities Linked to Central Decisionmaking

HK1107041190 Haikou Hainan Provincial Service  
in Mandarin 2200 GMT 8 Jul 90

[Text] Haikou City and Sanya City, the two prefecture-level cities of Hainan Province, became regular contact points of the General Office of the State Council as of 16 April.

The two cities have since provided information directly to the General Office of the State Council.

The General Office of the State Council demanded that when providing information, the two cities should pay attention to selecting important and useful information which might benefit the decisionmaking of the CPC Central Committee and the State Council and should promptly report the situation concerning the implementation of all the policies and measures formulated by the CPC Central Committee and the State Council in local areas. The two cities should provide one or two pieces of information to the General Office of the State Council once a week.

This decision will definitely strengthen links between Haikou City and Sanya City on the one hand and the State Council on the other.

## NORTHEAST REGION

### Liaoning Author Discusses Enterprise Culture, Ideology

90CM0144A Shenyang LILUN YU SHIJIAN  
[THEORY AND PRACTICE] in Chinese No 5,  
5 Mar 90 pp 20-21

[Article by Wang Boquan (3769 2672 3123): "The Objectives and Standards for the Development of Chinese Enterprise Culture and How They Are Selected"]

[Text] Competition between enterprises is exhibiting a new characteristic these days. It has changed from competition between enterprises for superiority in a single area to competition for the overall quality of the enterprise. How do we go about improving the overall quality of the enterprise? One of the main ways is to build up enterprise culture. The theory for enterprise culture is primarily the economic and management theory brought out by some advanced Western nations in the 1980's. Even though it certainly is important for us to profit from advanced western enterprise management theory, we definitely cannot copy it indiscriminately across the board. Instead we should create an enterprise culture with Chinese characteristics. The objectives and standards for the development of Chinese enterprise culture should be the organic integration of the glorious tradition of Chinese enterprises with modern enterprise thinking.

### 1. The Quintessential Objectives and Standards for Chinese Enterprise Culture Are the Organic Integration of Enterprise Ideological and Political Work With the Development of Enterprise Culture

Enterprise ideological and political work is indispensable for enterprise management. It has always provided valuable experience and a glorious tradition to Chinese enterprises. The flourishing of enterprise culture is a new point of growth developed by Chinese ideological and political work in the reform and opening to the outside world. Cultivating an enterprise culture that organically integrates the glorious tradition of China's enterprise ideological and political work with modern management theory in the new historical period is the very essence of the objectives and standards for the development Chinese enterprise culture.

First, enterprise ideological and political work and the goals which enterprise culture should pursue are consistent. Both concentrate on people. They greatly spur employees' initiative and enthusiasm and make exemplary employee conduct their goal. The consistency of these two goals is the basis for their integration. But, "enterprise culture" certainly cannot substitute for ideological and political work, because the way the two act and the way they are achieved are totally different. Ideological work is done mainly through such means as propaganda, education, settling misunderstandings, and heart-to-heart talks directly applied to people's subjective nature, correcting people's behavior by raising their consciousness and consciously stimulating their enthusiasm. Its strong point is its focus on the people's world view: this is the root cause of people's behavior. Its shortcoming is that it is simply too weak as a management method, its effects are subtle. Enterprise culture is different. It influences people's subjective nature by creating a stylistic environment and conditioning people's behavior. It unites elements and values in the enterprise environment, perfecting and strengthening them, and strongly exhibits those values in every aspect of the enterprise. When this stylistic atmosphere, which is centered on established values, is formed, it exerts a very strong influence on enterprise employees. Therefore, we say that the two have a great deal in common, but they take different approaches. Development of enterprise culture is inextricably tied in with ideological and political work, and ideological and political work can open up new prospects in a new age by making use of "enterprise culture."

In addition, enterprise culture and ideological and political work are symbiotic in content. Enterprise culture is management experience centered on people and it is inseparable from ideological and political work in establishing and perfecting a sense of values, in molding the total image of the enterprise, and in using the established sense of values as standards for people's [behavior]. Ideological and political work actually should be the theme of China's "enterprise culture." We have rich experience in ideological and political work which can be applied to the development of enterprise culture. A

cultural network is needed to develop enterprise culture, and China's political and ideological contingent is much better organized than any western network. We can achieve better results by relying on this contingent and fully utilizing our experience in ideological and political work to develop an outstanding enterprise culture.

There can be no doubt about the need to improve ideological and political work and organically merge ideological and political work with management. We certainly can improve Chinese enterprises' management level by using management as a catalyst and organically integrating the traditional experience of ideological and political work with enterprise culture. This is the way for China to successfully manage enterprises.

## **2. The Core of the Objectives and Standards of Chinese Enterprise Culture Is To Organically Integrate the Establishment of and Participation in a Democratic System in Enterprises**

Chinese enterprises have a glorious democratic tradition, and [democracy] has played a tremendous part in the development of the socialist economy, but we must admit that the system still needs a great deal of improvement and perfection in many places. Therefore, there is no denying [the need] to improve the democratic system in enterprises. The establishment of a sound democratic system in enterprises is only part of the problem. The need to improve employees' sense of democratic participation, and to organically integrate the two is even more urgent and important today for establishing a socialist enterprise culture with Chinese characteristics.

Improving the democratic system in enterprises provides a substantial foundation for improving employees' sense of participation. Improving employees' sense of participation is the driving force behind the perfection of the spirit of democracy in the enterprises. Theoretically, an essential characteristic of socialist enterprises is that employees are masters of their own destinies. This is reflected in the close connection between workers and means of production. They have a voice, and authority to participate in and oversee a series of important matters regarding enterprise production, operation, and management. However, socialism must not only take the approach that the masses' democratic participation in management is needed, it must also provide the possibility.

The core of enterprise culture stresses people power, and emphasis on a greater sense of participation for the people is the core of enterprise culture. A greater sense of participation can imbue the enterprise with vitality and enrich it with a fighting strength which will achieve better results. What is even more beneficial is that proper goals of enterprise culture become employees' voluntary goals, and thus [enterprise goals] are transformed into conscious motivation, so that everyone is concerned about the enterprise and the correct standards for enterprise culture are more binding. Since everyone suggests ways and means, policy decisions can be more scientific

and accurate and the enterprise can reach its full potential, be creative, and open up new vistas.

The enterprise's democratic system is an external political system and the sense of participation is a moral characteristic in the minds of the enterprise employees. A true democracy which is in keeping with a socialist enterprise culture and imbued with a totally modern advanced spirit can only be accomplished with the two working and developing in concert. Therefore, every effort must be made to improve the democratic system of the enterprise and enterprise employees' sense of participation, and [every effort must be made to] organically integrate the two so that [we] can create an enterprise culture that truly has Chinese characteristics.

## **3. Organic Integration of Education in Enterprise Collectivism and Training in a Spirit of Competition Is the Soul of the Objectives and Standards of China's Enterprise Culture**

The strong sense of political responsibility and the deep collective awareness of the Chinese working class are an outstanding tradition of Chinese enterprises. A spirit of competition also is an important prerequisite for a modern enterprise and must be reflected in the development of the socialist commodity economy. The enterprise is an economic entity in which the party realizes its political objectives, but it is also a relatively independent, profit-directed economic entity. Objectively [speaking], enterprises are placed in the contradictory position of being in mutual cooperation and mutual competition. This contradiction is determined by the productive nature of socialism and the objective requirements of socialist production. The development and resolution of [this] contradiction will cause socialist production to continuously develop and improve from its natural base.

Developing the commodity economy is a challenge for both the enterprise and employees. If an enterprise is well-managed, has good economic results, and takes the profits of the state, the collective, and the individual into consideration, the enterprise and its employees can get rich first. If not, the enterprise can fail or even go bankrupt. Objective facts have already forced employees to think about competition and caused them to be earnestly concerned about every aspect of the enterprise, even its position in society and its position, role, and future internationally. This consciousness is reflected in their work. The employees compete to do their best, and striving for the best gradually becomes a trend in all activities of the enterprise. The people consider the collective a big family and spare no effort in striving for anything that will honor the collective.

There is a qualitative difference between our competition and capitalist competition. Every enterprise is a member of our big socialist collective family. The goal of our competition is not to knock down our competitors, but to cause socialist enterprises to advance to a new level hand-in-hand based on and through competition.

Integration of collectivist education with training in a sense of competition requires that China's enterprise employees be broadminded and have a comprehensive perspective and a courageous spirit to brave [anything] for the advancement of their enterprise. This is characteristic of the Chinese working class, and it is also a quality required for developing Chinese enterprise culture.

**4. Organically Integrating the Spirit of Being Master of One's Fate With a Sense of Ownership Is the Cornerstone of Developing the Objectives and Standards of Chinese Enterprise Culture**

An enterprise's spirit of being master of its own fate is an important yardstick for testing people's character development and how liberated they are. It is also an important yardstick for measuring socialist enterprise culture. The working class's spirit of being masters of one's own fate is an outstanding tradition of New China's enterprises and has a brilliant history in socialist development. In the economic recovery period of the early 1950's and during the serious economic difficulties of the 1960's and 1970's, this spirit contributed greatly to nationalism and forged a working class that was an outstanding representative of such popular sentiments as the "Meng Tai Spirit" and the "Iron Man Spirit." But, for a long time, the working class has not displayed enough of the spirit of being masters of its own fate. On the one hand, this was because some cadres did not recognize and esteem the employees' position as masters. On the other hand, it was because some employees had lost their sense of being masters and did not approach their work with the attitude of masters.

A sense of ownership is important for the existence and the development of enterprises today. Cultivating an awareness that the enterprise is the worker's home and that everything he has comes from the enterprise is the cornerstone and source of an enterprise culture's strength. It tells us that an enterprise's profits, image, and future are inseparable from its employees. It helps employees recognize that the survival of the enterprise community is identical with [the survival of] their own community. It makes employees proud of every success and glorious tradition of the enterprise. They are confident of the development of the enterprise and take full responsibility [for it]. [This sense of ownership] also motivates employees to stand together with the enterprise through thick and thin.

Integrating the spirit of being master of one's fate with a sense of ownership is the stable cornerstone of socialist enterprise culture and the motivation for rejecting the narrow profit concept and allowing the working class to reach its greatest potential. It is also the most important characteristic of socialist enterprise culture.

Simply maintaining the traditional spirit while lacking a modern sense of enterprise can lead to backwardness. Conversely, casting aside the glorious traditional spirit could make China's enterprise culture feeble and lose its

character. Neither will do. A modern enterprise culture with Chinese characteristics must organically integrate glorious tradition with modern awareness.

**Liaoning Public Appointment Reforms Described**

*HK2806060190 Beijing LIAOWANG [OUTLOOK] in Chinese No 24, 11 Jun 90 pp 14-15*

[Article by Wu Ji (0702 1213) and Wei Yunheng (7614 6663 0077): "Take Away the 'Iron Armchair,' and Bring Up Good Cadres—Report on the Reform of the Personnel System for Cadres in Liaoning Province"]

[Text] In recent years, Liaoning province has obtained remarkable results in a series of positive and careful reforms in its cadre personnel system.

**The Appointment System Has Changed the Situation in Which Leading Cadres Will Only Be Promoted, and the "Iron Chairs" of 166 Department Heads Have Been Removed**

The document issued in August 1988 by the General Office of the Liaoning Provincial People's Government caught the attention of cadres in all government departments. It says: "The appointment system will be practiced for the recruiting of heads and deputy heads of sections of the provincial government, by which competent candidates will be chosen through open and fair competition."

Some cadres were doubtful about this and said: "Appointment and employment do not count. What counts is the words of leaders." Some department heads, who did their jobs just passably, complained, saying: "We have done well all through the years. Why have they made such a decision?" Some organ personnel are worried whether they will be scorned for "scrambling for high positions" and for "wresting powers through participation in competition." They are also worried whether relations with their leaders will worsen once not appointed. Nevertheless, the majority of organ cadres welcome this new reform system and believe that this new step will eradicate the longstanding habits of "counting experience and seniority" and of "promotion dependent on connections," making it possible, for the first time, for organ cadres to ascend and descend depending on their competence.

Appointment through competition is fair and competition is lively. The 1,313 positions of head and deputy head of organs, which are directly under the province's administration, attracted 1,816 candidates. In the Liaoning Provincial Civil Administration Department, supervisor Sun Kedong, who had just turned 30, said frankly, when competing for the position of the deputy head of the Society Administration Department: "The reasons that have motivated me to take part in competition are that first, I am interested in new things and new jobs, and am willing to do some pioneering jobs. Secondly, I am sure that I have a broad range of knowledge since I have systematically acquired a lot of

social knowledge at a university and through my job." He summed up his objective for the competition by 16 characters, namely, be confident, reflect qualifications, enhance understanding, and improve one's self-image. This is also in the mind of many other candidates.

Some unprecedented results have been scored through the appointment system. In the 62 departments and bureaus of Liaoning province, 1,313 cadres at the section level have been appointed, 34.2 percent of whom are new recruits, including 42 young supervisors or deputy supervisors who are being promoted, while 166 cadres at the section level failed and offered their "chairs" to others. The appointment system has further upgraded intermediate-level cadres. According to an investigation conducted in 46 departments and bureaus, the average age of cadres at the section level has dropped from 50.9 before the appointment system took effect to 47.1, and the proportion of cadres that have had education at or above the college level has risen from 57.2 percent to 67.4 percent.

The appointment system has increased the pressure on organ cadres in their jobs and improved the work efficiency of administrative organs. When young and middle-aged core cadres of the Provincial Public Health Department had filled positions at various section levels, they finished nine jobs that ranked first in the country in the same profession within six months, and were commended by their seniors for 16 other jobs.

**The System of Cadre Appointment Through Examination Has Made It Possible, for the First Time, for Competent People To Fill Positions in Administrative Organs; 3,069 Persons Passed Examinations and Filled Positions in Administrative Organs at Various Levels in Liaoning Province**

Ordinary peasants Ming Xiao and Yue Yonghua, aged 29 and 24, never dreamed that they could become cadres of state organs overnight. They got the jobs not through any special means or by any connections. Their "pass-ports" are their competence.

Ming Xiao lives in Shilihe Village, Sujiatun District, Shenyang City, and his parents are peasants. He had served in the army for four years, after which he ran an enterprise in the village and then became a temporary worker. This young peasant, who graduated from the China Rural Area Intelligence Development University by taking correspondence courses, took a cadre recruitment examination in the city in 1988 bearing in mind that he was only trying. Consequently, he got good marks in the examination and took a position in charge of enterprise management in an office on Jiefang Street, Sujiatun District. After a year's service and with his willingness to learn and use his head, he worked hard with a strong sense of responsibility and was able to help enterprises in the street develop with remarkable results. Street Office director said that Ming Xiao does a job he is "capable of doing."

The traditional, conservative system for cadre transfer and assignment has been abandoned through reforms. The Liaoning Provincial Personnel Department has named the "examination system" a new breakthrough, offering jobs to the public through public examinations.

In recent years, organs directly under the administration of Liaoning province and 14 organs under the city's direct administration have held 115 joint examinations with 28,071 candidates. For all these examinations, six things were made known to the public, namely, the recruitment plan, the employing units and positions offered, the subjects to be examined, the procedures and methods of recruitment, the examination results, and the recruitment results. The examinations were supervised by the public as a whole, and every candidate had the same opportunity. Therefore, any other "ways" or "letters" did not work.

Liaoning province has, in recent years, recruited 3,069 comrades and placed them in various government organs. Some of them were originally workers in factories. Some were from rural areas. Others were from clerical units. Numerous limits, once unpassable, can now be passed, and "conservative" methods were abandoned. Candidates must compete in public examinations to show their capabilities. In an examination held in Shenyang city in 1988, 5,400 candidates applied, of whom 3,014 participated in the examination. It turned out later that only 340 persons fell within the qualifications. Nevertheless, competition did not just end there. On the evening of an autumn day, eight candidates came into the city through the arrangements of the City Government Research Office. They got the highest marks among the 300-some candidates, but still had to compete, at the end, through practice, for four positions in the Research Office of the City Government. These eight candidates went separately to the district Public Health Hospital, Wupi Village, and the Special Leather Shoe Village separately for a two-day survey, then wrote a report on their survey in one day. They said: "This kind of method can ensure candidates' real capabilities because it not only uses academic results as the only criterion but also tests their capabilities through practice."

According to an investigation into 169 recruited cadres in Benxi City, their average age is 31; 76 percent of them have had college education or higher; 34 percent are professionally qualified; 30 percent have been promoted in the organs recruiting them; and 95 percent do outstanding work or are so capable. Shenyang City's data shows clearly that of the 376 recruited personnel, two have been promoted to positions at the bureau level, 20 have assumed positions at the section level, and 60 have been selected as outstanding workers or excellent party members. They represent 16 percent of the total number of recruits. Facts explain that reforms in the cadre personnel systems have produced satisfactory results and have encouraged people to strive for better things.



**The Contract System for the Recruitment of Town and Township Cadres Has Brought in Over 7,000 Town and Township Cadres and Solved the Problems of Overaged Cadres, Undereducated Cadres, and Difficulty Finding Suitable Personnel**

One out of four cadres in the towns and townships of Liaoning's rural areas are cadres recruited through the contract system. Over 7,000 outstanding peasants have been appointed as town and township cadres through the contract system after going through examinations and tests. They can retain their right of residence in their own counties as well as their status as peasants. When appointed, they are entitled to all benefits of state cadres, and when their employment expires they can return to their homes as peasants.

The contract system for the recruitment of town and township cadres was initiated in 1982 by Liaoning province. In view of the advanced ages of town and township cadres at that time, their poor health, low levels of education, lack of professional knowledge, the serious personnel shortages, and other problems, Faku and other counties took the lead in trying this contract system. These outstanding young peasants are familiar with local conditions and maintain close ties with other peasants. They therefore can quickly build up a core force for the development of towns and townships. Whenever peasants are employed as cadres, they cherish their jobs and work particularly hard. Dai Dong, peasant of Faku Township, Faku County, was a high-school graduate during the Great Cultural Revolution. When he returned to his village after graduation, he once worked as a party branch secretary. He was very skilled in vegetable cultivation. In 1984 he was employed, on a contract basis, as vice director of the Township Economic Commission, and then as vice township chief and took charge of vegetable production. He conscientiously developed scientific and technological services, promoted fine vegetable varieties, and enlarged the vegetable cultivation area. With several years' effort, he not only solved the problem of vegetable shortages in the township but also enabled it to have 1 million jin of surplus vegetables to sell in other areas. Sun Jixiang, assistant forest ranger of Dingjiafang Township, Faku County, was once a temporary worker in the county forestry bureau. He was a practical worker. In 1983, he was employed as a township cadre on a contract basis. He bravely reformed the management structure of forestry, enabling the township-run forest to obtain the best

economic returns in the whole county. Under his leadership, trees were planted in the 2,000 mu saline-alkaline soil of the township and five barren hills covering an area of 12,000 mu all turned green. The entire township has basically been afforested. Sun Jixiang attended last year's National Forestry Experience Exchange Meeting and his story won people's acclaim. Later he was promoted to vice township chief. Some peasants said with feeling: "To change the poor outlook of this country, this native cadre is really of use."

According to figures given by relevant departments, of the 7,000 town and township cadres recruited through the contract system, 240 have been promoted to lead towns and townships, 1,400 have been assessed as outstanding workers at the county level or above, and 1,600 joined the CPC after employment. The contract system really plays a role in contracting cadres. It functions to stimulate and regulate them. It reminds them that their employment is not ensured unless they do well. According to information released by the Liaoning Provincial Personnel Department, since 1982 a number of contracted cadres have been dismissed for incompetence, violating discipline, or for other reasons. This kind of incessant "dismissing the old ones and recruiting the new" has brought vitality to town and township enterprises.

Contracted town and township cadres also have their anxieties. One of the greatest concerns is what they will do when they are old. Since last year, the Organization Department of the Liaoning Provincial CPC Committee and the Provincial Personnel Department worked out a method for contracted cadres, who are different from state cadres. One measure is to institute the old-age insurance system for contracted cadres. This measure further improves the contract system for town and township cadres. Moreover, it has freed contracted town and township cadres from anxiety.

Liaoning province has also actively explored reform in the leading cadres recruitment and selection system, the personnel management system, the system by which soldiers have become cadres, and the assignment system for graduates of colleges, high schools, and professional schools. Xu Yansheng, director of the Liaoning Provincial Personnel Department told reporters that their experiment in cadre personnel systems always had the support of the Liaoning Provincial CPC Committee and Provincial Government, and the guidance of the State Personnel Department, as well as the cooperation of the public as a whole. Director Xu Yansheng said that they would continue to steadily reform cadre personnel systems so as to contribute to socialist modernization.

**Hau Pei-tsun Cabinet Nomination Denounced***90CM0252A Taipei TZULI WANPAO in Chinese  
16 May 90 p 14*

[Article by Huang Shugen (7806 2885 2704): "'Hau Pei-tsun Phobia' Grips People of Taiwan"]

[Text] For four decades, the KMT [Kuomintang] has been content to exercise sovereignty over Taiwan alone. During that time its war cry has been "anticommunism." Beneath the surface, however, it suffers from a full-blown case of "communism phobia," using communism to scare the people into submitting to continued KMT rule. Enveloped in a fear of communism, the people of Taiwan dare not face up to the fact that independence may be their best option for the future.

In recent days, amid rising apprehension of a political struggle, Taiwan's President Li Teng-hui [2621 4098 6540] unexpectedly gambled with the future of Taiwan's people by nominating Hau Pei-tsun [6787 2672 2625], a military strongman through and through, for a seat in the Cabinet. After the mass media spread the word, a Hau Pei-tsun phobia descended upon the island, its grip on the people so firm that it was seemingly unbreakable. It is almost as if Taiwan had returned to the era of white terror of the 1950's, when the Chiang family was in control. The air was heavy with the fear of "military intervention" in politics.

Why do the people of Taiwan fear Hau Pei-tsun so much? The very next day after word got out on his nomination, Yu Fu [7625 1133], a cartoonist with TZULI TASOPAO who describes himself as restricted, produced a cartoon which depicted gun-toting soldiers bursting into Yu Fu's studio as ordered on a search-and-confiscate mission. With his sharp political sensibilities, Yu Fu warned the people of Taiwan that white terror was just around the corner. The cartoon was also the most powerful and most direct protest against Hau Pei-tsun.

Another cartoon depicted Hau Pei-tsun as the monster inadvertently released from his Aladdin's lamp by Li Teng-hui. In a third cartoon, Hau Pei-tsun was a raging bull charging from behind a piece of red cloth waved by Li Teng-hui the matador. It sent a shocked stock market into a tailspin and frightened investors fleeing in all directions.

The media reported briefly the unflattering spectacle of some KMT members of the Legislative Yuan who occupied additional seats on the legislature trimming their sails to suit the political wind. That aside, the TV networks are pro-Hau Pei-tsun all the way. They imposed a blackout on the vehemently anti-Hau Pei-tsun student protest outside Chungcheng Temple Square and even claimed that television had the freedom to choose what position to take, in the process earning the contempt and condemnation of people of insight. This

shows that TV networks are obsequious and phobic, enough to drive indignant Taiwan into smashing their TV sets.

The county council was meeting at Ri Yueh Tan. As citizens of Taiwan, its chairman and vice chairman asked Li Teng-hui in a concerned and caring tone whether or not Hau Pei-tsun would bully him. An embarrassed Li Teng-hui shook his head vigorously. "How is that possible?" Actually not even Li Teng-hui understands Hau Pei-tsun's cunning and treacherous thinking. Li Teng-hui's ruse of using the tiger to scare the wolf may end up putting himself in the tiger's mouth. As Chang Po-ya [1728 0590 7161], a member of the Legislative Yuan, put it, "It is easy to invite God to come, but hard to ask him to leave." Right now Li Teng-hui is riding a tiger and finds it hard to get off. He is caught in a dilemma. In the cartoons, Li Teng-hui was portrayed as endlessly breaking out in a cold sweat. When he saw them, Li Teng-hui probably also felt a touch of sadness.

Laden with anxiety, intellectuals and scholars of conscience and character have all been voicing their concern about military intervention in politics. Citing Article 140 of the Constitution, which explicitly provides that "military personnel on active duty shall not serve concurrently as civilian officials," they strongly demand that Hau Pei-tsun be relieved of military duties before he assumes his cabinet position, in order to remove the anxiety and suspicion of the people of Taiwan regarding military intervention by Hau Pei-tsun the soldier, and that he not return to the military in the future. Invoking a love for one's native land, the Taiwan Writers Society has called on the media to raise unequivocally their voice of opposition. Out of conscience, intellectuals and writers too should oppose military intervention and domination of politics to prevent the transition to democracy in Taiwan from fizzling out.

Faced with outright media charges that he may intervene in politics, Hau Pei-tsun, with his heavy eyebrows and fearsome looks, had this to say, "If I wanted to interfere in politics, I could have done so as chairman of the Joint Chiefs of Staff or as minister of national defense. No need to wait until becoming president of the Legislative Yuan." This defense lays bare his latent desire to intervene in politics as a soldier. Either he is trying to hide his intent or he is completely ignorant about politics and democracy, a hayseed through and through, a mere soldier who nevertheless insists on being crowned.

A number of ludicrous delegates and scholars who are in the pay of the government have compared Hau Pei-tsun to Eisenhower or de Gaulle. Such inappropriate comparisons have all been ridiculed by Yu Fu in a cartoon using the Taiwanese folk saying, "Comparing a chicken leg to a bluebird." (Perhaps the humor is lost on Hau Pei-tsun.)

What is puzzling is this: Apart from those spineless obsequious politicians who worship whoever happens to be in power, why do the people of Taiwan fear Hau Pei-tsun so much that they act like stray curs? This writer

is angry that the people of Taiwan have too high a regard for Hau Pei-tsun. A military man who has lived on the blood and sweat of the people for four decades and more. A fat and greedy man whose teeth and tongue are in constant motion. He wields military power and boasts impeccable military credentials. That is the appearance. In reality, who else but the sons of the people of Taiwan actually hold the guns and aim the gun muzzle accurately? When the day comes when Hau Pei-tsun tears away his mask and seeks to shackle the people of Taiwan with military rule brutally and against their wishes, which is what people in all quarters fear, would the sons of the people of Taiwan obey him blindly and aim their guns at their elders? Can Hau Pei-tsun issue orders to the armed forces in his capacity as a civilian official—president of the Legislative Yuan? If that is the case, then the people of Taiwan can only blame their sons for turning against them. But have the people of Taiwan completely lost confidence in their sons' ability to make wise choices? To borrow a short Taiwanese saying, "What can Hau Pei-tsun do?" The people of Taiwan think too highly of him while belittling themselves.

Li Teng-hui has nominated Hau Pei-tsun for a cabinet position in order to hide political strife. On the surface, however, the grand excuse is to straighten out the law-and-order situation. This phony excuse has been proven hollow by Lo Chang [5012 1728], director-general of the National Police Administration and a former general himself. Even Hau Pei-tsun, lacking self-confidence, has consistently denied that he had promised to straighten

out the law-and-order situation in Taiwan within six months to a year. For the people of Taiwan, there is no alternative to a system that does not heed public opinion at all. Just as helplessly, they must accept the reality of Hau Pei-tsun becoming a Cabinet member, albeit reluctantly and with great distaste. Whether Li Teng-hui's big gamble would backfire against him is an internal matter for the KMT, but the welfare of 20 million people must not go down with it. No way can Hau Pei-tsun turn out to be an Eisenhower. But the people of Taiwan must be on guard to stop him from turning into a Chuan Tou-huan [0356 2435 3562] or Marcos and endangering democratization in Taiwan, creating a historical tragedy of a cyclical nature.

To stop the bad luck of history from befalling them, the people of Taiwan must depend on themselves, have more confidence in themselves, and inspire their will to survive. They should relentlessly put pressure on Hau Pei-tsun to force him to adjust the pace of democratization. Li Teng-hui has declared, "If you cannot do the job well, quit." But this instruction will not make Hau Pei-tsun submit to control and keep him in his place if it is not powerfully backed up by public opinion. The people's power cannot be ignored. Let "Cabinet Minister Hau Pei-tsun" be a brief transitional cabinet title. May the people of Taiwan soon emerge from their historical nightmare, achieve complete political self-determination, and draw up a blueprint for their future ideal world.

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